FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2021

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I. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Message from the Chairwoman

As Chairwoman of the Federal Communications Commission (FCC or Commission), I am pleased to present the FCC's fiscal year (FY) 2021 Agency Financial Report. This report provides financial and performance information about the FCC's activities over the course of FY 2021.

The Federal Communications Commission has mounted what I believe is an extraordinary response to a historic crisis. Nothing has shined a light on the challenges brought by lack of broadband like this pandemic. It has revealed hard truths about the digital divide, the homework gap, and the consequences that come from being disconnected. Because those who cannot connect are denied—denied access to education, jobs, healthcare, and opportunity. Thanks to our work, as of November 9, 2021 over seven million families enduring economic hardship and food insecurity during this pandemic are now connected to high-speed internet service. That means they can keep up with work, apply for jobs, seek and receive healthcare, and get the information they need to access essential services in their communities. Thanks to our program to help end the homework gap, as of November 9, 2021 school-aged children have access to almost seven million connected devices that will help them keep up with their schoolwork and develop the skills they need for success in the digital age. Plus, we have healthcare centers nationwide that are receiving much needed funding support to assist with efforts to expand telehealth. Also recently, the FCC kicked off a mid-band spectrum auction that will help ensure that 5G networks reach everyone, everywhere in the country. We did not choose how this coronavirus crisis began, but I believe that we do have a choice when it comes to the legacy that this crisis leaves behind. We need to use this moment to build a foundation for new growth and new opportunity in the post-pandemic world.

As for management of the Commission, the pandemic has also presented challenges as the FCC has needed to innovate to deliver upon its mission in a largely remote work environment. Despite these challenges, the FCC has again demonstrated its commitment to sound financial management and has received for the sixteenth straight year an "unmodified" opinion on its financial statements from the FCC's Office of Inspector General's independent auditors. I am grateful to the staff of the FCC who work diligently every year to ensure that the Commission has strong financial controls in place and who work to provide all of the necessary information to the independent auditors as part of the financial audit process. The Inspector General and its auditors do make some recommendations to the FCC for additional improvements, and the FCC concurs with these recommendations. The FCC's staff will work to take any and all necessary steps to implement corrective actions to continue to strengthen the operations of the FCC. In closing, I would like to thank all of the FCC's staff for their hard work this past fiscal year. The FCC staff is not just uncommonly talented and knowledgeable about communications law and policy, it's also an exceptional group of public servants. Thank you for your public service.

Jessica Rosenworcel
Chairwoman
November 15, 2021

Overview of the Federal Communications Commission

Introduction

Office of Management and Budget (OMB) Circular No. A-136, released on August 10, 2021, states that agencies may choose to produce either a consolidated Performance and Accountability Report (PAR) or a separate Agency Financial Report (AFR) with an Annual Performance Report (APR). The Federal Communications Commission (FCC, Agency, or Commission) has chosen to produce the AFR. The FCC will include its Fiscal Year (FY) 2021 APR with its Congressional Budget Justification and will post it on the Commission's website at https://www.fcc.gov/about/strategic-plans-budget.

The Commission's AFR includes three sections:

Section 1 consists of Management's Discussion and Analysis (MD&A) that presents a message from the Chairwoman, an overview of the FCC, including the senior leadership, Agency's mission statement, organizational structure, organizational chart, map of field offices, strategic goals and objectives, strategies and resources to achieve goals, entity components for financial statement purposes, payment integrity, performance highlights, overall status of audit recommendations, management assurances, financial management systems strategy, financial discussion and analysis, and other key financial statement analysis.

Section 2 contains the Commission's financial information. This section contains the independent auditor's reports, Commission's response to the independent auditor's reports, consolidated financial statements, notes to the financial statements, and required supplementary information.

Section 3 presents other information such as a summary of financial statement audit and management assurances, required reporting on payment integrity pursuant to the Payment Integrity Information Act of 2019, management and performance challenges from the Office of Inspector General, and a schedule of civil monetary penalties.

About the Federal Communications Commission

The FCC is an independent regulatory agency of the United States (U.S.) Government. The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission also regulates telecommunications, advanced communication services, and video programming for people with disabilities, as set forth in various sections of the Communications Act.

The Commission's headquarters is located in Washington, D.C. It has 13 field offices throughout the nation, including three regional offices located in Atlanta, GA, Columbia, MD, and Los Angeles, CA.

Senior Leadership

The FCC is directed by five Commissioners appointed by the President and confirmed by the Senate for five-year terms, except when filling the unexpired term of a previous Commissioner. Only three Commissioners can be from the same political party at any given time. The President designates one of the Commissioners to serve as the Chair.

The Chair serves as the Chief Executive Officer of the Commission, supervising all FCC activities, delegating responsibilities to Offices and Bureaus, and formally representing the Commission before the Congress and the Administration.

Currently, the Commission has only four Commissioners. The current Chair and the Commissioners are:

- Chairwoman Jessica Rosenworcel
- Commissioner Brendan Carr
- Commissioner Geoffrey Starks
- Commissioner Nathan Simington

Mission

As specified in section one of the Communications Act of 1934, as amended, the Commission's mission is to "make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges."[1] In addition, section one provides that the Commission was created "for the purpose of the national defense" and "for the purpose of promoting safety of life and property through the use of wire and radio communications."[2]

Organizational Structure

In order to accomplish its strategic plan, the FCC is organized by function. There are seven Bureaus and ten Offices. The Bureaus and the Office of Engineering and Technology process applications for licenses to operate facilities and provide communication services, analyze complaints from consumers and other licensees, conduct investigations, develop and implement regulatory programs, and participate in hearings and workshops. Generally, the Offices provide specialized support services, and in addition, the Office of Economics and Analytics manages the auctions program. The Bureaus and Offices regularly join forces and share expertise in addressing FCC-related issues.

The Bureaus

- **The Consumer & Governmental Affairs Bureau** develops and implements consumer policies, including disability access and policies affecting Tribal nations and state and local governments. The Bureau also serves as the public face of the Commission through outreach and education and responds to consumer inquiries and informal complaints. The Bureau maintains collaborative partnerships with consumer-facing organizations and state, local, and Tribal governments in such areas as implementation of critical initiatives, implementation of new technologies, and emergency preparedness. In addition, the Bureau's Disability Rights Office provides expert policy and compliance advice on accessibility with respect to various forms of communications for persons with disabilities. The Bureau also ensures public facing access to the Commission for persons with disabilities via a team of American Sign Language interpreters and accessible formats specialists.

- **The Enforcement Bureau** enforces the Communications Act and the FCC's rules. It acts to protect consumers, ensure efficient use of spectrum, further public safety, promote competition, resolve disputes, and protect the integrity of FCC programs and activities from fraud, waste, and abuse.

- **The International Bureau** administers the FCC's international telecommunications and satellite programs and policies, including licensing and regulatory functions. The Bureau promotes pro-competitive policies abroad, coordinates the FCC's global spectrum activities, and advocates for U.S.

[1] 47 U.S.C. § 151.
[2] *Id.*

interests in international communications and competition. The Bureau works to promote high-quality, reliable, interconnected, and interoperable communications infrastructure on a global scale.

- **The Media Bureau** recommends, develops, and administers the policy and licensing programs relating to electronic media, including broadcast, cable, and satellite television in the United States and its territories.

- **The Public Safety and Homeland Security Bureau** develops and implements policies and programs to strengthen public safety communications and interoperability, homeland security, national security, emergency management and preparedness, disaster management, and network reliability and resiliency. These efforts include rulemaking proceedings that promote more efficient use of public safety spectrum, improve public alerting mechanisms, enhance the nation's 911 emergency calling system, and establish frameworks for communications prioritization during crises. The Bureau also maintains 24/7 operations capability and promotes Commission preparedness to assist the public, first responders, the communications industry, and all levels of government in responding to emergencies and major disasters where reliable public safety communications are essential. Finally, the Bureau coordinates the Commission's national security mission and consults with the Defense Commissioner pursuant to 47 CFR § 0.181 of the Commission's rules.

- **The Wireless Telecommunications Bureau** is responsible for wireless telecommunications programs and policies in the United States and its territories, including licensing and regulatory functions. Wireless communications services include cellular, paging, personal communications, mobile broadband, and other radio services used by businesses and private citizens.

- **The Wireline Competition Bureau** develops, recommends, and implements policies and programs for wireline telecommunications, fixed (as opposed to mobile) broadband and telephone lines, striving to promote the widespread development and availability of these services. The Bureau has primary responsibility for the Universal Service Fund which helps connect all Americans to communications networks.

- **The Office of Administrative Law Judges** is composed of one judge (and associated staff) who presides over hearings and issues decisions on matters referred by the FCC.

- **The Office of Communications Business Opportunities** promotes competition and innovation in the provision and ownership of telecommunications services by supporting opportunities for small businesses as well as women and minority-owned communications businesses.

- **The Office of Economics and Analytics** provides objective economic analysis to support Commission policy making and implements agency-wide data practices and policies, including implementing significant economically-relevant data collections. The Office also manages the FCC's auctions in support of and in coordination with the FCC's Bureaus and Offices.

- **The Office of Engineering and Technology** advises the FCC on technical and engineering matters. This Office develops and administers FCC decisions regarding spectrum allocations and unlicensed devices and coordinates use of the spectrum with the Executive Branch. The Office also oversees the Commission's equipment authorization program to ensure compliance with technical rules and its experimental licensing program to promote new and innovative technologies and services.

- **The Office of the General Counsel** serves as the FCC's chief legal advisor.

- **The Office of the Inspector General** conducts and supervises audits and investigations relating to FCC programs and operations.

- **The Office of Legislative Affairs** serves as the liaison between the FCC and Congress, as well as other Federal agencies.

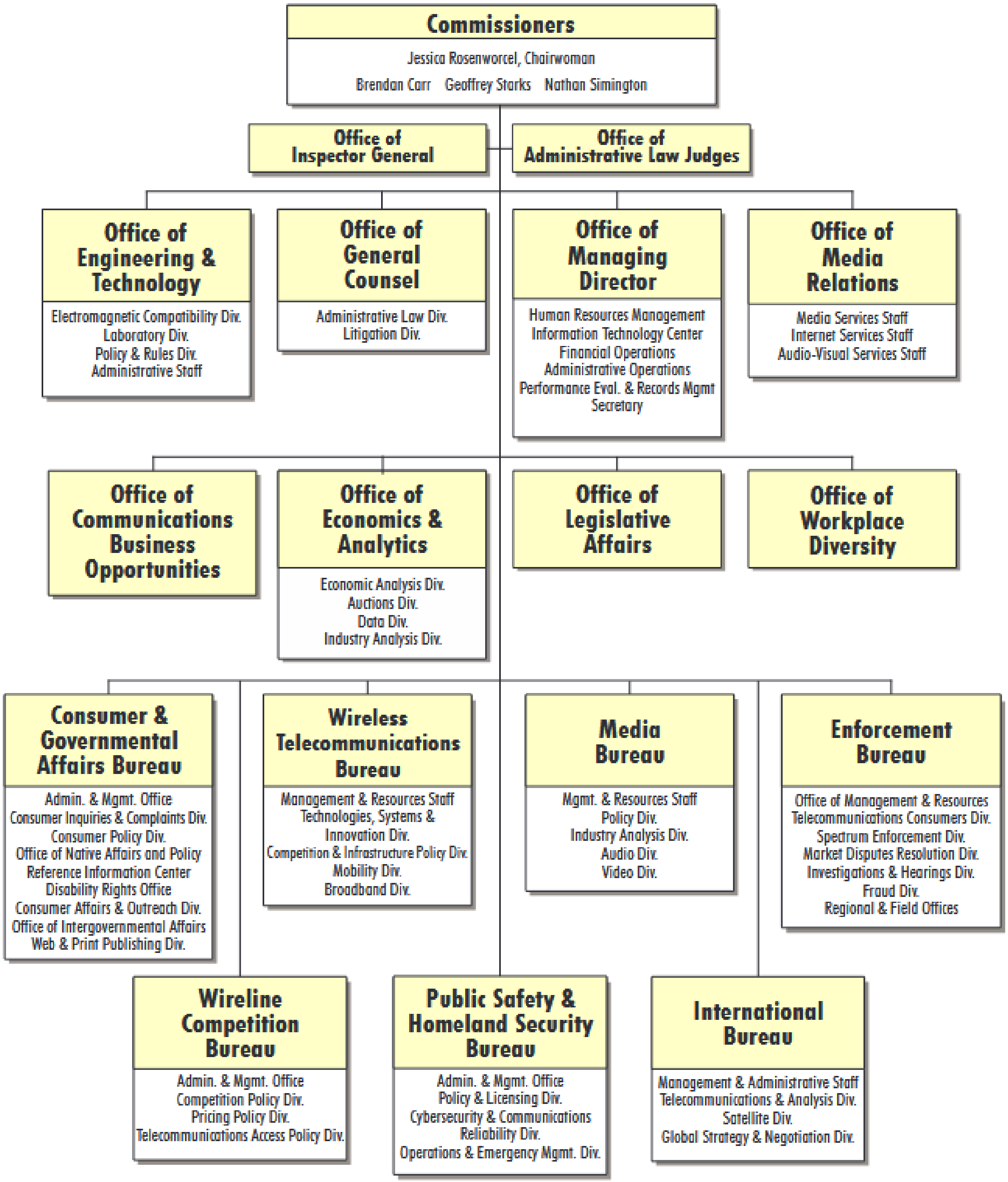
- **The Office of the Managing Director** administers and manages the FCC.

- **The Office of Media Relations** informs the media of FCC decisions and serves as the FCC's main point of contact with the media.

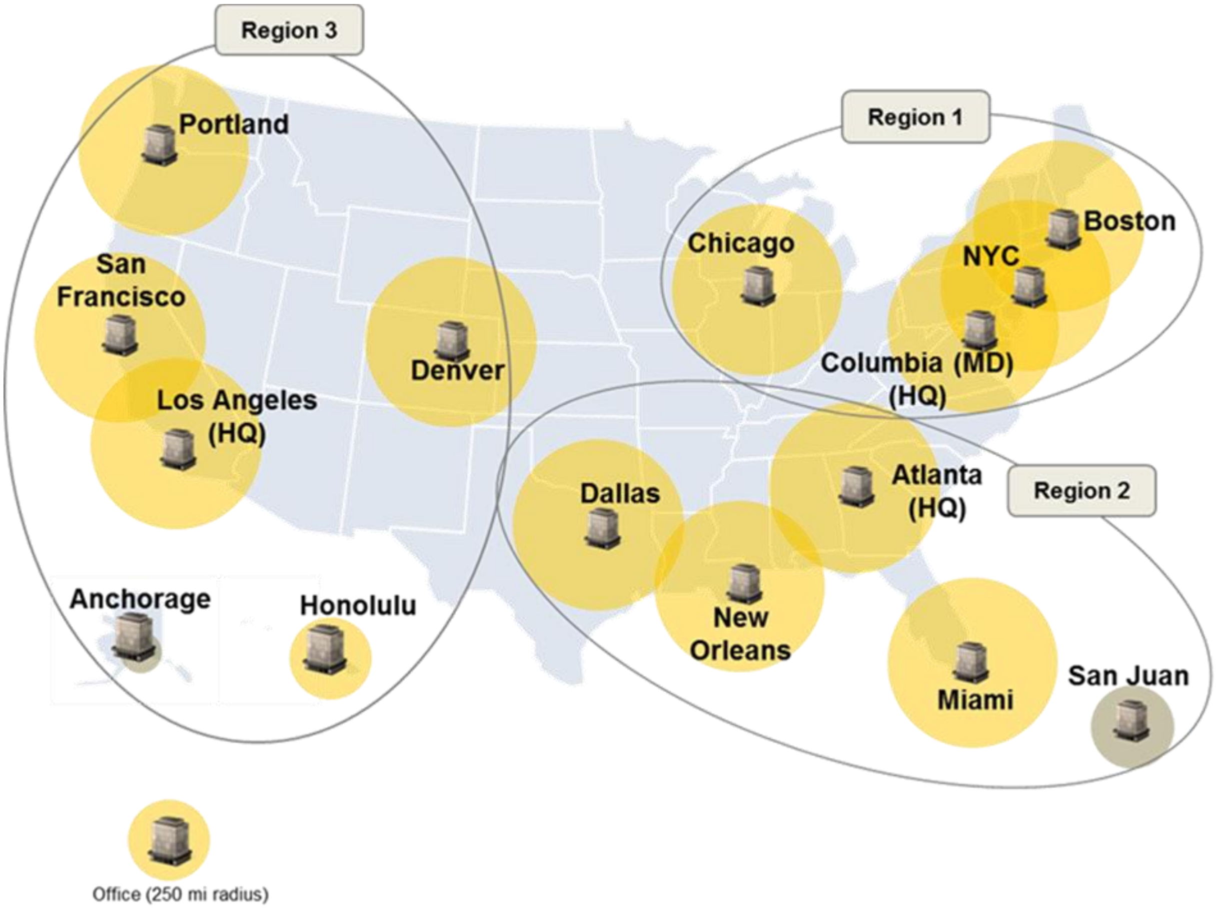
- **The Office of Workplace Diversity** develops, coordinates, evaluates, and recommends to the Commission policies, programs, and practices that foster a diverse workforce, and promotes and ensures equal employment opportunity (EEO) for all employees and applicants without regard to race, color, religion, sex (including pregnancy and gender identity), sexual orientation, national origin, age, disability (mental, intellectual, or physical), marital status, parental status, political affiliation, genetic information (including medical history), or any other basis protected by law.

Additional information on specific Bureau and Office responsibilities can be found in Title 47 of the Code of Federal Regulations and on the Commission's web site at: http://www.fcc.gov.

Organizational Chart



Map of FCC Enforcement Bureau's Field Offices



Note: The San Juan and Anchorage offices are not staffed by Full-Time Equivalents (FTEs) on a regular basis.

Strategic Goals and Objectives

The FCC is responsible to Congress and the American people for developing a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. The FCC will work to foster a competitive, dynamic, and innovative market for communications services through policies that promote the introduction of new technologies and services and ensure that Commission actions promote entrepreneurship and remove barriers to entry and investment. The Commission will also strive to develop policies that promote the public interest, improve the quality of communications services available to those with disabilities, and protect public safety. The FCC will continue to improve its processes to deliver on the needs of today and the future in a more proactive and efficient manner.

The FCC's FY 2021 Agency Financial Report reflects the strategic and performance goals included in the FCC's FY 2021 Budget proposal, which contains the FCC's FY 2021 performance plan, and was submitted to Congress in February of 2020, prior to Chairwoman Rosenworcel's tenure as the FCC's agency head. Pursuant to the GPRA Modernization Act of 2010, P.L. 111-352, and OMB Circular A-11, the FCC has updated its strategic and performance goals since the Presidential transition in January of 2021 to reflect the priorities of the administration of the FCC under its new Chairwoman.

The new strategic goals, which can be found in the performance plan section of the FCC's FY 2022 Budget proposal, include: Pursue a "100 Percent" Broadband Policy; Promote Diversity, Equity, Inclusion, and Accessibility; Empower Consumers; Enhance Public Safety and National Security; Advance America's Global Competitiveness; and Foster Operational Excellence. For additional information on the FCC's new goals, please see the FCC's FY 2022 Budget proposal, which is available at: https://www.fcc.gov/about/strategic-plans-budget. The FCC has already made significant progress in FY 2021 towards implementing Chairwoman Rosenworcel's priorities. However, for the purposes of reporting on its activities in FY 2021, the FCC is presenting the performance information under the goals as they existed in the FCC's FY 2021 performance plan in accordance with OMB reporting guidelines. The FCC's new goals will be reflected next year in the FCC's Agency Financial Report for FY 2022. For FY 2021, the FCC, in accordance with its statutory authority and mission, established the following four strategic goals:

Strategic Goal 1: Closing the Digital Divide

Develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

Strategic Goal 2: Promoting Innovation

Foster a competitive, dynamic, and innovative market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

Strategic Goal 3: Protecting Consumers and Public Safety

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

Strategic Goal 4: Reforming the FCC's Processes

Modernize and streamline the FCC's operations and programs to increase transparency, improve decision-making, build consensus, reduce regulatory burdens, and simplify the public's interactions with the agency.

Strategies & Resources to Achieve Goals

The Commission has identified strategies and resources to achieve its performance goals for each strategic goal. Details on the Commission's strategies and resources for achieving its strategic goals are included in the Commission's strategic plan at: https://www.fcc.gov/about/strategic-plans-budget.

Components of the Commission for Financial Statements Purposes

In addition to the activities directly undertaken by the above bureaus and offices, the Commission's components for financial statement purposes include:

Universal Service Fund (USF) – The Telecommunications Act of 1996, amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation.[3] Pursuant to section 254(d) of the Act, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[4] For budgetary purposes, for FY 2019 and prior years, the USF comprised five elements that consisted of the four USF programs and the Telecommunications Relay Service (TRS) Fund. The four USF programs include: the High Cost Program (also known as the Connect America Fund), the Lifeline Program, the Rural Health Care Program, and the Schools and Libraries Program (also known as E-Rate). Starting with FY 2020, TRS numbers are shown under its own separate account.

The Universal Service Administrative Company (USAC) administers the four USF programs and the Connected Care Pilot Program (CCPP) under the Commission's direction. These four programs and the CCPP are funded through mandatory contributions from U.S. telecommunications service providers, including local and long-distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The High Cost Program provides funding to eligible service providers to help defray the cost of serving customers in high cost and rural areas. The Lifeline Program provides monthly discounts to help make communications services more affordable for low-income consumers. The Rural Health Care Program provides support for both telecommunications and advanced telecommunications and information services for eligible health care providers. The E-Rate Program provides discounts for telecommunications, Internet access, and internal connections to eligible schools and libraries. Lastly, the CCPP provides support to help defray health care providers' costs of providing connected care services, particularly to low-income Americans and veterans. In FY 2021, the USF accounted for approximately $9,190 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF can be found at http://www.usac.org and https://www.fcc.gov/general/universal-service.

Telecommunication Relay Service (TRS) Fund – The TRS Fund represents a program established under section 225 of the Act.[5] This statute provides for a mechanism to support relay services necessary for

[3] *See* Telecommunications Act of 1996, Pub. Law No. 104-104, 110 Stat. 56 (1996).

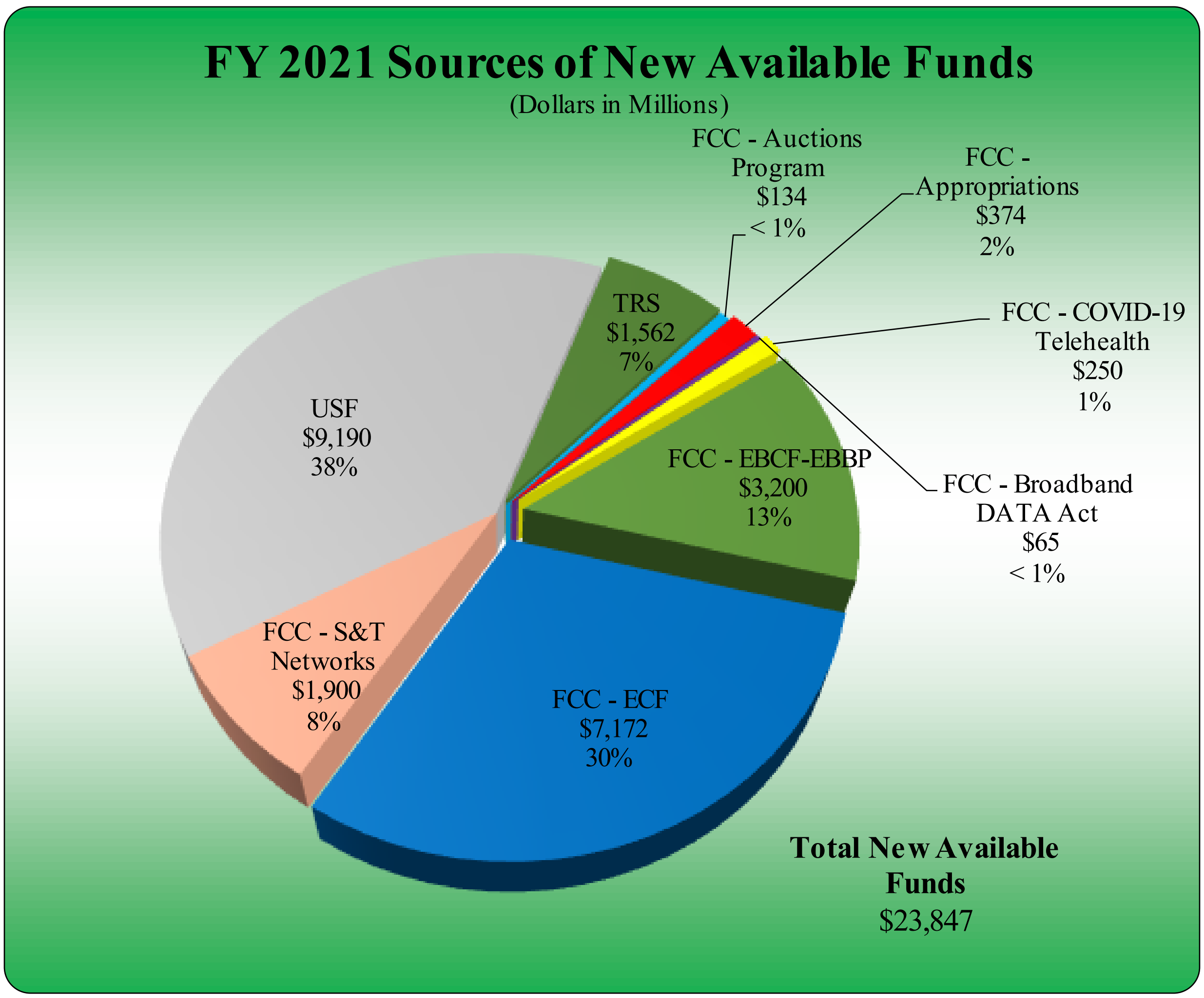
[4] *See* 47 U.S.C. § 254(d).

[5] *See* 47 U.S.C. §§ 225(a)(3), (b)(1).

telecommunications access by speech or hearing-impaired populations. Prior to FY 2020, the TRS Fund was included under USF. Beginning with FY 2020, TRS is reported under its own separate account approved by OMB in FY 2019.

Rolka Loube, LLC (RL) is the administrator for the TRS Fund. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2021, the TRS Fund accounted for approximately $1,562 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on RL and the TRS Fund can be found at http://www.rolkaloube.com/ and https://www.fcc.gov/general/telecommunications-relay-services-trs.

For further clarification on the financial relationships between the Commission and these components, see Note 1 of the financial statements in Section 2. Also, see the chart below which shows the relative size of the component funds in comparison to the major sources of funds for the Commission.



The $7,172 million appropriation in the Emergency Connectivity Fund (ECF) is authorized as a part of the American Rescue Plan Act of 2021[6] to help support remote learning by providing funding to schools and

[6] *See* American Rescue Plan Act of 2021, Title VII, Sec. 7402, Pub. Law No. 117-2, 135 Stat. 4 (2021).

libraries for the reasonable costs of eligible equipment and services. The $3,200 million is appropriated for the Emergency Broadband Connectivity Fund - Emergency Broadband Benefit Program (EBCF-EBBP) under the Consolidated Appropriation Act, 2021[7] to help low-income households pay for broadband services and connected internet devices by providing discounts to eligible recipients.

The $1,900 million appropriation for the Secured and Trusted Communications Networks Reimbursement Program (S&T Networks) is also a part of the Consolidated Appropriation Act[8] to remove, replace, and dispose of communications equipment and services that pose a national security threat.

The Commission's appropriations of $374 million reflects the authority for the Commission to collect regulatory fees. The $374 million includes additional $33 million specially dedicated to implement the requirements of the Broadband Deployment Accuracy and Technological Availability Act (Broadband DATA Act). The $250 million in the chart above is the fund, under Consolidated Appropriations Act[9], appropriated in addition to the amount in FY 2020 to continue to support health care providers "to address coronavirus by providing telecommunications services, information services, and devices necessary to enable the provision of telehealth services" in response to the coronavirus disease 2019 (COVID-19) pandemic.[10]

The $134 million for the Commission's Auctions program is collections from auction revenues used to offset the cost of performing auctions-related activities. The $65 million authorized under the Consolidated Appropriations Act is also for the Broadband DATA Act implementation.[11] The Broadband DATA Act requires the Commission to collect data on the availability and quality of both fixed and mobile broadband Internet access services, to create publicly available coverage maps, to establish processes for members of the public and other entities to challenge and verify the coverage maps, and to create a common dataset of all locations where fixed broadband Internet access service can be installed.[12]

Payment Integrity

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and Payment Integrity Information Act (PIIA) of 2019, the Commission has made significant efforts to implement policies and procedures to strengthen internal controls that prevent improper payments. In addition, the Commission oversees a payment recapture program that includes both audits and transaction testing to search for and recapture overpayments. Section 3 of the AFR provides further details on these efforts. Additional information reported by the Commission on Payment Integrity can also be found on https://paymentaccuracy.gov/.

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[7] *See* Consolidated Appropriations Act, 2021, Division N, Pub. Law No. 116-260, 134 Stat. 1182 (2021) (Consolidated Appropriations Act).

[8] *Id*.

[9] *Id*.

[10] *See* Coronavirus Aid, Relief, and Economic Security (CARES) Act, Division B, Pub. Law No. 116-136, 134 Stat. 281 (2020).

[11] *See* Consolidated Appropriations Act.

[12] *See* Broadband Deployment Accuracy and Technology Availability Act, Pub. Law No. 116-130, 134 Stat. 228 (2020) (Broadband DATA Act).

Performance Highlights

CLOSING THE DIGITAL DIVIDE

Develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

A key priority for the FCC is to close the digital divide in rural America. The FCC used several mechanisms and funding models to increase broadband service in rural areas, including the Rural Digital Opportunity Fund, the Emergency Connectivity Fund, the COVID-19 Telehealth Program, the Emergency Broadband Benefit Program, and the Connected Care Pilot Program.

Rural Digital Opportunity Fund

The FCC moved forward with funding new broadband deployments through the Rural Digital Opportunity Fund by authorizing over $311 million in broadband funding across thirty six states and as of September 30, 2021, the Commission has obligated $136 million of the amount authorized. The FCC also took steps to clean up issues with the program's design originating from its adoption in 2020. As a result of this funding authorization, forty eight broadband providers will bring 1 Gbps broadband speeds to nearly 200,000 homes and businesses over the next 10 years.

Emergency Connectivity Fund

The FCC adopted rules implementing the $7.17 billion program, funded by the American Rescue Plan Act of 2021, which enables schools and libraries to purchase laptop and tablet computers, Wi-Fi hotspots, and broadband connectivity for students, school staff, and library patrons in need during the COVID-19 pandemic.

The FCC announced that it was committing over $1.2 billion for 3,040 schools, 260 libraries, and 24 consortia that applied for support from the Emergency Connectivity Fund Program. The first wave of funding commitments will provide students, school staff, and library patrons in all 50 states and Guam, Puerto Rico, and the District of Columbia access to the devices and broadband connectivity they need to support their off-campus education needs. The funding will support 3,081,131 devices and 774,115 broadband connections and help connect over 3.6 million students who would otherwise lack access.

COVID 19- Telehealth Program

The FCC approved a total of over $83 million in funding applications for Round 2 of its COVID-19 Telehealth Program, a $249.95 million federal initiative that builds on the $200 million program established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The FCC approved an initial set of 62 applications for funding commitments totaling $41.98 million for Round 2, and then approved another 72 applications for funding commitments totaling $41.11 million. The program supports the efforts of health care providers to continue serving their patients by providing telecommunications services, information services, and connected devices necessary to enable telehealth during the COVID-19 pandemic.

Emergency Broadband Benefit Program

Over six million households have enrolled in the Emergency Broadband Benefit Program since its launch in mid-May. The Emergency Broadband Benefit Program is a $3.2 billion federal initiative to provide qualifying households discounts on their internet service bills and an opportunity to receive a discount on a computer or tablet. This program provides eligible households with discounts of up to $50 a month for broadband service, and up to $75 a month if the household is on Tribal lands. It also provides a one-time discount of up to $100 on a computer or tablet for eligible households.

Connected Care Pilot

The FCC approved a Report and Order offering guidance on the administration of the $100 million Connected Care Pilot Program, including guidance on eligible services, competitive bidding, invoicing, and data reporting for selected participants. The FCC approved an initial set of 23 projects, followed by 36 additional pilot projects, bringing the total to over $57 million in funding for 59 pilot projects serving patients in 30 states plus Washington, DC.

Updating E-Rate

The FCC proposed revisions to the definition of library in the E-Rate program rules to clarify that Tribal libraries are eligible to participate in the program. Some Tribal libraries have been unable to receive support from the program, which provides discounts on broadband services to schools and libraries, because they did not meet an outdated definition of a library in the Commission's rules.

PROMOTING INNOVATION

Foster a competitive, dynamic, and innovate market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

The FCC took several actions to make additional spectrum available for 5G deployment:

- The FCC made mid-band spectrum in the 3.45-3.55 GHz band available for auction by reallocating 100 megahertz in the 3.45 GHz band for flexible use wireless services. The FCC also sought comment on procedures for Auction 110, in which spectrum will be divided into ten 10-megahertz blocks licensed by geographic areas known as Partial Economic Areas (PEAs).
- The Wireless Telecommunications Bureau (WTB) granted 222 applications for Priority Access Licenses won in the 3.5 GHz auction (Auction 105). These applications represent 17,450 Priority Access Licenses. Subsequently, 13 additional applications were granted, representing 125 licenses.
- WTB granted 5,676 licenses in the 3.7 GHz service (3.7 to 3.98 GHz, also referred to as the C-band) following completion of Auction 107.
- WTB and Office of Engineering and Technology took three actions related to 3.5 GHz Environmental Sensing Capability (ESC) and Spectrum Access Systems (SAS) approvals.
- WTB granted an additional 21 spectrum licenses in the 2.5 GHz band to help connect rural Tribal communities filed in the Rural Tribal Priority Window. WTB also granted an additional 6 spectrum licenses to Tribal entities in Alaska. To date, the agency has granted 270 licenses to Tribal entities.

The FCC updated its radio frequency device marketing and importation rules to accelerate the timeframe for developing and releasing new wireless devices. The rules will give innovators more flexibility to engage in crowdfunding and other popular marketing campaigns and, in specific cases, to import devices still under equipment authorization review.

The FCC adopted rules to bolster the U.S. commercial space industry's access to spectrum needed for successful rocket launches. These rules lay the groundwork for giving private space travel and satellite launch companies access to spectrum in the 2200-2290 MHz band for transmissions from space launch vehicles during pre-launch testing and space launch operations.

The FCC adopted new sponsorship identification requirements to require broadcasters to disclose when foreign governments or their representatives lease time on their airwaves.

The FCC sought comment on updated rules for short-range radars in the 60 GHz spectrum band. Radar sensing technology has been used to enable in-car radar-based technology to monitor for children left in dangerous, hot cars and touchless control of devices, including to promote accessibility for users with mobility or speech impairments.

The FCC sought comment on allowing Wireless Multi-Channel Audio Systems (WMAS), on a licensed basis in frequency bands where wireless microphones already are currently authorized. WMAS is an emerging wireless microphone technology that would enable more microphones per megahertz of spectrum, an efficiency that can benefit music venues or convention centers with multiple performers or speakers.

The FCC created new innovation zones in and nearby North Carolina State University in Raleigh, North Carolina and Northeastern University in Boston, Massachusetts to allow for advanced wireless communications and network innovation research.

PROTECTING CONSUMERS AND PUBLIC SAFETY

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

Robocall Related Actions

The FCC continued to act aggressively to target and eliminate unlawful robocalls:

- The FCC proposed rules to ensure networks that serve as entry points for foreign-originated phone calls do their part to prevent traffic from illegal robocalls. The proposed rules would require these companies to apply STIR/SHAKEN caller ID authentication to, and perform robocall mitigation on, all foreign-originated calls with U.S. numbers. Implementation of caller ID authentication using the STIR/SHAKEN framework reduces the effectiveness of illegal spoofing, helps law enforcement identify bad actors, and improves voice service providers' blocking of robocalls using illegally spoofed caller ID information before those calls reach their subscribers.
- The FCC adopted rules establishing a process to review actions affecting a voice service provider's ability to comply with the STIR/SHAKEN caller ID authentication framework. To participate in STIR/SHAKEN, a provider must possess a digital "token" which the private Governance Authority that oversees the STIR/SHAKEN framework may revoke.
- The FCC sought comment on shortening the amount of time afforded to certain small voice service providers for implementing caller ID authentication using the STIR/SHAKEN framework spoofed caller ID information before those calls reach subscribers.
- The FCC proposed new rules to protect 911 call centers, also known as Public Safety Answering Points (PSAPs), from unwanted robocalls. The Further Notice of Proposed Rulemaking would require voice service providers to block robocalls made to 911 call center telephone numbers listed on a PSAP Do-Not-Call registry.
- The FCC proposed updating its rules governing interconnected VoIP providers' direct access to phone numbers to address problems from the growth of widely available VoIP software that can allow bad actors to make spoofed robocalls.
- The FCC released "Call Blocking Tools Available to Consumers," a report on the call blocking and labeling services offered to consumers by voice service providers and third-party analytics

companies. Providers report that they are offering consumers more blocking tools and blocking more calls, but that not all consumers have opted into call blocking technologies offered by providers.
- The FCC adopted rules establishing a formal system by which private entities like hospitals or other institutions can provide information about suspected robocall or spoofing campaigns directly to the FCC through a new online portal.
- The FCC launched the Robocall Mitigation Database through which voice service providers are required to inform the agency of their robocall mitigation efforts. Phone companies must refuse to accept traffic from voice service providers not listed in the Database. Companies granted an extension for compliance with the call authentication mandate contained in the TRACED Act and FCC rules – generally small companies and/or providers of non-IP-based services – must file reports on steps they are taking to ensure they are not the source of illegal calls. All of the largest phone carriers certified to implementation of STIR/SHAKEN standards on their IP networks.

The FCC's Enforcement Bureau undertook the following action with respect to robocalls:

- A fine of $225 million against telemarketers for transmitting approximately one billion robocalls, many of them illegally spoofed, to sell short-term, limited-duration health insurance plans.
- A proposed $5,134,500 fine against individuals and a company for apparently making 1,141 unlawful robocalls to wireless phones without prior express consent in violation of the Telephone Consumer Protection Act (TCPA).

Additional Enforcement Actions

The FCC undertook a number of enforcement actions and investigations in fulfilling its mission to enforce the Commission's rules and protect consumers from illegal or unfair practices. Results of those actions and investigations included:

- A $3.5 million civil penalty and consent decree, along with a compliance plan to ensure that non-exempt video programming that streams over the internet includes closed captioning in compliance with Commission rules. This was the first consent decree and first enforcement action related to Internet Protocol (IP) closed captioning rules since their adoption in 2012.
- A Forfeiture Order finding eighteen stations in eight station groups liable for failing to negotiate for retransmission consent in good faith, and imposed fines up to $1.5 million on each licensee. The FCC imposed a per-station penalty of $512,228 against each Defendant.
- A Notice of Apparent Liability for Forfeiture of $518,283 against a broadcast licensee for violation of the Commission's prohibition against owning two top-four television stations in the same Designated Market Area (DMA), which resulted in the ownership and operation of two of the top-four stations in the Anchorage, Alaska DMA.
- A fine of $4,145,000 against a company for switching consumers from their preferred carrier to that company without permission and adding unauthorized charges to consumers' bills.
- Fines against two companies for $327,290 and $207,290 respectively for providing unlicensed wireless broadband-based GPS services under the guise of providing radar-based location services.
- A denial of a petition asking the agency to reconsider its $2,861,128 fine for marketing drone transmitters that did not comply with FCC equipment marketing rules.
- A $200 million penalty against a company to resolve an investigation of a subsidiary's compliance with the Commission's rules regarding waste, fraud and abuse in the Lifeline program for low-income consumers.
- A fine of $49,598,488 against a company for violations of Universal Service Fund program rules that resulted in millions of dollars in improper payments.

Additional Consumer Related Actions

The FCC began a rulemaking process with the goal of confronting subscriber identity module (SIM) swapping scams and port-out fraud, both of which bad actors use to steal consumers' cell phone accounts without ever gaining physical control of a consumer's phone. The Notice of Proposed Rulemaking proposes various actions to proactively address the risk of follow-on attacks using stolen data to reduce the risk of additional harm to consumers from recent data breaches.

The FCC approved a Further Notice of Proposed Rulemaking to expand access to the National Suicide Prevention Lifeline by establishing texting to 988.

The FCC Commission sought comment on potential updates to the video relay service (VRS) compensation plan through the Telecommunications Relay Services (TRS) Fund.

Public Safety

The FCC took several actions to improve public safety and national security:

- The FCC adopted rules to improve the way the public receives emergency alerts on their mobile phones, televisions, and radios by combining the current "Presidential Alerts" category, which is non-optional on devices that receive Wireless Emergency Alerts, with alerts from the FEMA Administrator to form a new non-optional alert class called "National Alerts."
- The FCC closed out its 800 MHz band reconfiguration program, which enabled public safety, critical infrastructure, and other licensees in the band to operate free of the interference that previously plagued first responder communications in these frequencies.
- The FCC adopted a framework for sharing communications outage information with state, federal and Tribal nation agencies to improve their situational awareness, and enhance their ability to respond more quickly to outages affecting their communities.
- The FCC proposed rules to promote public safety by ensuring that 911 call centers and the public receive timely and useful notifications of network disruptions that affect 911 service.
- The FCC sought comment on potential improvements to the Wireless Network Resiliency Cooperative Framework, including evaluating what triggers its activation, its scope of participants, whether existing Framework elements can be strengthened, any gaps that need to be addressed, and whether some or all of the Framework should be codified in the Commission's rules.
- The FCC adopted a baseline set of national security and law enforcement questions for companies with foreign ownership seeking to participate in the U.S. telecommunications market. These standard questions will generally apply to companies submitting applications to provide international telecommunications services, deploy submarine cables, operate certain wireless and broadcast facilities, and assign or transfer control of such licenses.
- The FCC adopted an Order that incorporated changes to the Commission's rules consistent with the Consolidated Appropriations Act, 2021, which appropriated $1.895 billion for the Secure and Trusted Communications Networks Reimbursement Program. The Order increased the eligibility cap for participation in the Reimbursement Program from providers serving two million or fewer customers to those with 10 million or fewer customers.
- The FCC adopted a framework requiring the disabling of contraband wireless devices detected in correctional facilities upon satisfaction of certain criteria, and addressed issues involving oversight, wireless provider liability, and treatment of 911 calls.
- The FCC approved rules lowering the interim rate caps on interstate inmate calling services to $0.12 per minute for all prisons and $0.14 for jails with average daily populations of 1,000 or more, providing financial relief to the vast majority of incarcerated people. The Order also established caps on international calling services rates for the first time at all prison and jail facilities.

- The FCC adopted new rules implementing section 902 of the Don't Break Up the T-Band Act of 2020 to help address the diversion of 911 fees by states and other jurisdictions.
- To protect public safety operations in the 4.9 GHz spectrum band, the FCC rescinded state-by-state leasing rules adopted in 2020, finding that they risked fragmenting the band. The FCC also partially lifted a freeze on applications in this band to allow existing public safety licensees to modify their licenses and to license new permanent fixed sites. The FCC also sought comment on establishing a nationwide framework for the band.

REFORMING THE FCC'S PROCESSES

Modernize and streamline the FCC's operations and programs to increase transparency, improve decision-making, build consensus, reduce regulatory burdens, and simplify the public's interactions with the agency.

The FCC adopted rules requiring the electronic filing of all applications and reports in the International Bureau Filing System (IBFS). These rules extended electronic filing requirements to Section 325(c) Applications, Applications for International High Frequency Broadcast (IHF) Stations, and Dominant Carrier Section 63.10(c) Quarterly Reports.

The FCC proposed rules to revise political programming and recordkeeping rules for broadcast licensees, cable television system operators, DBS, and SDARS licensees. The proposals included revising the definition of "legally qualified candidate for public office" to add the use of social media and creation of a campaign website to the existing list of activities that may be considered in determining whether an individual running as a write-in candidate has made a "substantial showing" of his or her bona fide candidacy.

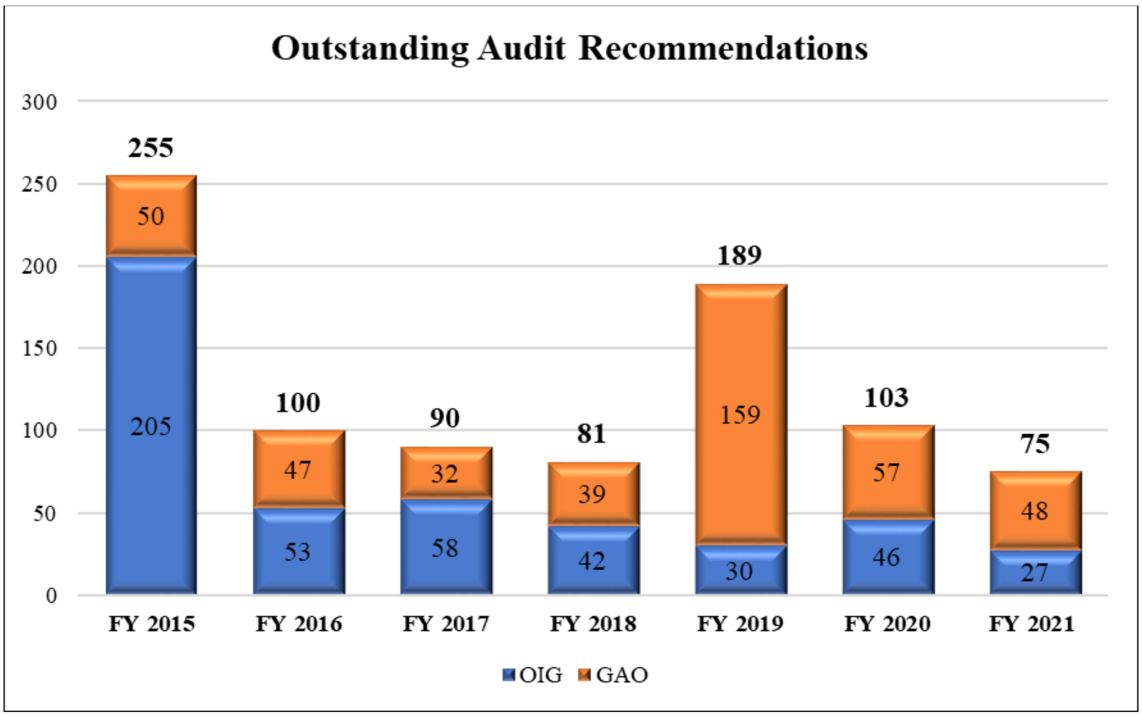
The FCC sought to refresh the existing record regarding the statutorily mandated collection of data on the FCC Form 395-B, an employment report form intended to gather workforce composition data from broadcasters on an annual basis. The form and data have not been collected for many years.

The FCC sought comment on eliminating or amending outmoded or unnecessary regulations contained in the Code of Federal Regulations to better reflect current requirements and eliminate redundant, outdated, or conflicting technical provisions.

Overall Status of Audit Recommendations

The chart below shows the number of audit recommendations outstanding, both public and non-public, from various audits conducted by FCC's Office of Inspector General (OIG) and the Government Accountability Office (GAO) as of September 30, 2021. The numbers shown below exclude those recommendations for which the Commission has already submitted information to GAO and OIG requesting closure of the recommendation. The count also excludes those recommendations that the Commission has determined to be closed as not implemented. In FY 2021, the Commission implemented (closed) 68 outstanding recommendations, received 40 new recommendations, and finished the fiscal year with a total of 75 open recommendations. In FY 2019, there was a large number of new recommendations received just before the fiscal year end, which led to the increased number of open recommendations in that fiscal year.

As can be seen by the reduction of open recommendations at the end of FY 2021, the Commission has been actively working to implement (close) open recommendations as quickly as possible. The Commission will continue to work as quickly as possible to implement (close) the outstanding recommendations.



Management Assurances

MANAGEMENT ASSURANCES PURSUANT TO THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes overall requirements with regard to internal control. FMFIA requires agencies to establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable laws; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over assets. Pursuant to FMFIA's requirements, agencies must annually evaluate their system of internal controls and report on the results of those evaluations through management assurance statements.

In accordance with Office of Management and Budget (OMB) guidance related to FMFIA, OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Commission maintains internal controls for financial and management reporting that provide reasonable assurance that the consolidated financial statements fairly present information related to assets, liabilities, and net position and do not contain material misstatements. Transactions are executed in accordance with budgetary and financial laws, consistent with the Commission's statutory requirements, and are recorded in accordance with Federal accounting standards. Additionally, assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Furthermore, the Commission's internal controls provide for the reliability and completeness of its financial and performance data.

The FY 2021 auditors' report identified a significant deficiency in Information Technology controls related to identify and access management. The Commission will make every effort in FY 2022 to implement corrective action plans for each of the recommendations associated with this finding to avoid any repeat findings in these areas. The FY 2021 auditors' report also found a significant deficiency in internal control related to an isolated instance of recording a forfeiture order inaccurately that had no effect on the Commission's consolidated financial statements other than to one of the notes to the consolidated financial statements. The auditors found that controls in that area need to be improved because those existing controls were not effective in all instances in FY 2021. In FY 2022, we will enhance our existing controls to prevent any recurrence of the same accounting error in the future.

Status of Internal Controls – Section 2 of FMFIA

During FY 2021, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting by building upon continuing improvements to its risk assessment processes. The Commission implemented risk assessment tools to update its pre-existing processes for internal control evaluation, both at the Commission and at its reporting components, USF and TRS. The Commission's updated risk assessment process integrates the latest versions of the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government* (Green Book), as well as OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Utilizing GAO's Green Book as a blueprint, the Commission implemented an entity level risk assessment tool that is completed each fiscal year by its Bureaus and Offices as well as its reporting components.

In FY 2021, the Senior Management Council (SMC) continued its oversight of the Commission's entity and program level risk assessments as part of its overall Enterprise Risk Management (ERM) process pursuant to OMB Circular A-123. The SMC includes representatives from across the Commission's Bureaus and Offices to more fully integrate the Commission's internal control assessment processes into the operations of the Bureaus and Offices while also identifying, monitoring, and mitigating risks throughout the year. While the Commission has received unmodified opinions over its consolidated financial statements for the sixteenth consecutive year, the Commission understands that maintaining proper internal controls requires continuous review of its internal controls and implementing improvements to them on an ongoing basis.

Financial Management Systems – Section 4 of FMFIA

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the agency's financial management systems provide reliable, consistent disclosure of financial data and conform to government-wide requirements. In FY 2021, the Commission's financial management systems were in compliance with government-wide requirements. The Commission continues to work with its reporting components on their financial systems.

Statement of Assurance

Commission management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of FMFIA. The Commission conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Commission can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively and financial management systems conform to government-wide standards as of September 30, 2021.

Jessica Rosenworcel
Chairwoman
November 15, 2021

Financial Management Systems Strategy

The Commission's financial management system, Genesis, is a Momentum based product that serves as the financial accounting system of record and provides for the core accounting services of the Commission. These services include: funds control, budget execution, general ledger, accounts payable, accounts receivable, financial reports, and access controls. Genesis facilitates compliance with the Federal Managers' Financial Integrity Act (FMFIA), and the maintenance of an unmodified financial audit opinion. Genesis continues to support the accounting for the spectrum auctions program at the Commission, including the activities under the Spectrum Act, which provides for the reimbursement of relocation expenses for eligible entities. The Commission Registration System (CORES) allows eligible entities to seek reimbursement and enter their banking information into CORES online, and allows an entity to view their available balance for reimbursement along with the history of payments made to the entity. Additionally, Genesis supports efficiency initiatives, including the Invoice Processing Platform (IPP), which reduces the paper chain associated with the document review process and reduces, and/or eliminates, instances of duplicate data entry. Genesis also provides self-service capability for the Bureaus and Offices to execute accounting functions, including business analytics for decision making.

In support of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), the Consolidated Appropriations Act, 2021 (P.L. 116-260), and the American Rescue Plan Act of 2021 (P.L. 117-2), the Commission leveraged the scalable functionality of Genesis and IPP to quickly accommodate updates for four new programs—COVID-19 Telehealth Program (Round 2), Emergency Broadband Connectivity Fund – Emergency Broadband Benefit Program, Emergency Connectivity Fund, and the Secure & Trusted Communications Network Reimbursement Program—mandated to the Commission under these laws. Specifically, during the past year, the Financial Operations systems have taken on an expanding role in support of the Commission's mission, including these four new programs. Additional financial system activities were required to support these new programs in the areas of: eligibility determinations of requested services and items, applicant registration process, applicant registration with the federal System for Award Management (SAM), utilization of the Treasury's Do Not Pay (DNP) system, and processing applicants' reimbursement requests.

The Commission continues to optimize financial management system controls through ongoing monitoring reviews, business process engineering initiatives and implementation of best practices, including the migration of the Genesis to the Cloud environment. In FY 2021, more Commission financial legacy systems were decommissioned, continuing to decrease operations and maintenance costs and supporting modernization initiatives. Additionally, the Commission continues to maintain a steady state within the core financial system and fully utilizes Genesis' features and functions, aligning financial system activities with the Commission's business management goals. The Commission's financial management system strategy continues to build on processes that: improve internal controls; increase integration; implement tools that enhance budget formulation and performance; and improve financial coordination with our reporting components.

Financial Discussion and Analysis

UNDERSTANDING THE FINANCIAL STATEMENTS

The Commission is committed to excellence and accuracy in financial reporting, transparency, and financial management. Preparing the Commission's financial statements is part of the goal to improve financial management and provide accurate and reliable financial information that is useful for assessing performance and allocating resources. The Commission's management is responsible for the integrity and objectivity of the information presented in the financial statements. For the sixteenth consecutive year, the financial statements have received an unmodified or clean audit opinion from the independent external auditors hired by the Office of Inspector General.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities. The financial statements and notes are presented in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements—Revised*, dated August 10, 2021.

This section presents a summary analysis of key financial statement core business activities. The principal financial statements include the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources and the Consolidated Statement of Custodial Activity. This section also summarizes the financial activity and net position of the Commission. The complete set of principal financial statements is included in Section 2 of this report.

A summary of the Commission's major financial activities in FY 2021 and FY 2020 is presented in the table on the next page. This table represents the resources available for use (assets) against the amount owed (liabilities) and the amount that comprises the difference (net position). The net cost represents the gross cost of operating the Commission's lines of business less earned revenue. Budgetary resources represent funds made available to the Commission.

CHANGES IN FINANCIAL POSITION IN FY 2021
Consolidated
(Dollars in Thousands)

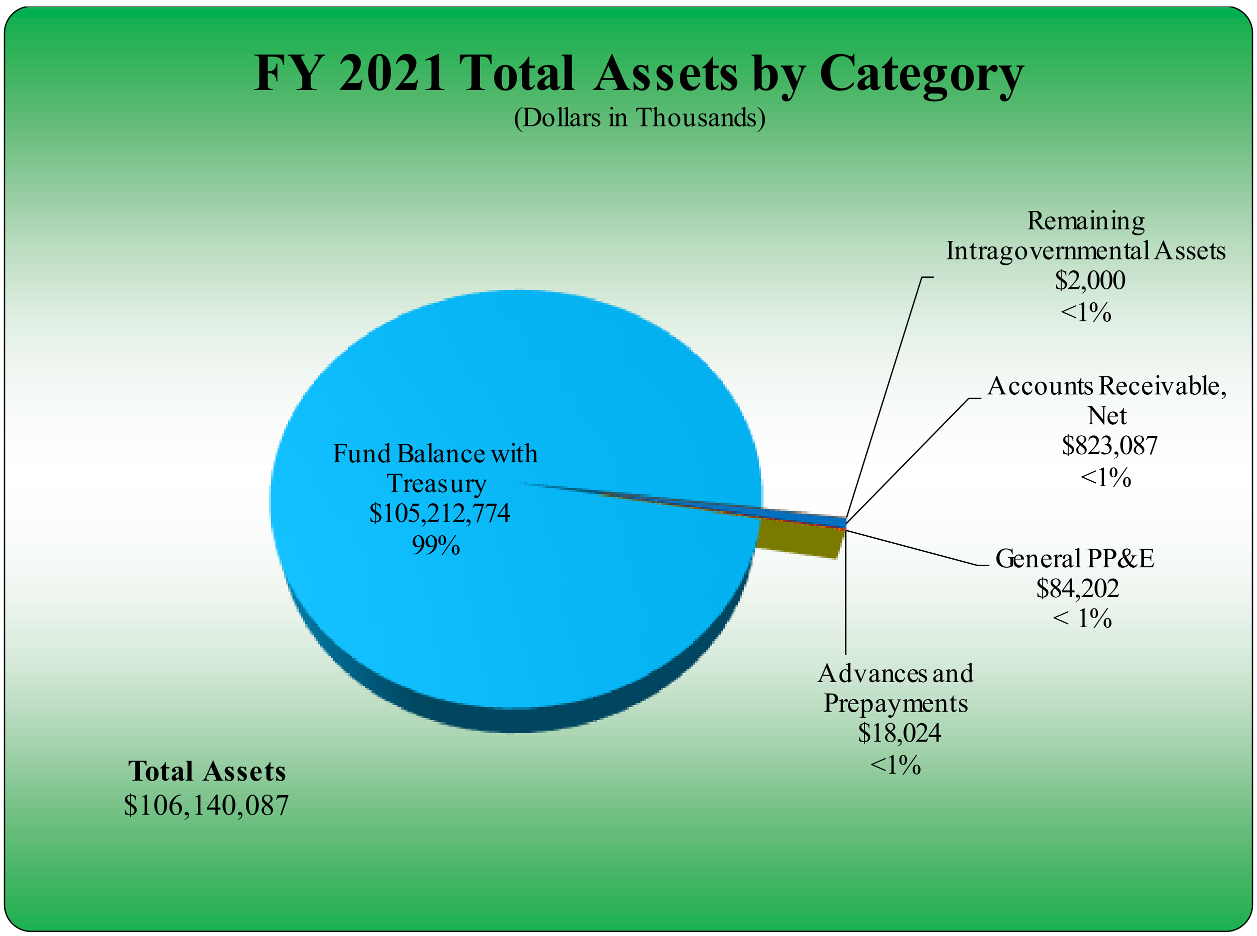
Net Financial Condition	FY 2021	FY 2020	Increase (Decrease)	Percentage Change
Intragovernmental				
Fund Balance with Treasury	$ 105,212,774	$ 18,787,296	$ 86,425,478	460%
Accounts Receivable, net	361	439	(78)	-18%
Advances and Prepayments	1,639	2,863	(1,224)	-43%
Total Intragovernmental	$ 105,214,774	$ 18,790,598	$ 86,424,176	460%
With the Public				
Accounts Receivable, net	823,087	788,501	34,586	4%
General Property, Plant and Equipment, net	84,202	79,878	4,324	5%
Advances and Prepayments	18,024	18,024	-	-
Total with the Public	$ 925,313	$ 886,403	$ 38,910	4%
Total Assets	**$ 106,140,087**	**$ 19,677,001**	$ 86,463,086	439%
Intragovernmental				
Accounts Payable	$ 1,402	$ 10,525	$ (9,123)	-87%
Liability to the General Fund of the U.S. Government for custodial and other non-entity assets	84,234,840	7,738,740	76,496,100	988%
Other liabilities	3,868	3,553	315	9%
Total Intragovernmental	$ 84,240,110	$ 7,752,818	$ 76,487,292	987%
With the Public				
Accounts Payable	$ 828,732	$ 827,857	$ 875	0%
Federal Employee Benefits Payable	26,503	26,419	84	0%
Advances from Others and Deferred Revenue	153,756	2,997,879	(2,844,123)	-95%
Prepaid Contributions	44,563	108,399	(63,836)	-59%
Accrued Liabilities for USF and TRS	490,897	483,329	7,568	2%
Deposit/Unapplied liability	606,917	-	606,917	100%
Other	23,362	27,979	(4,617)	-17%
Total with the Public	$ 2,174,730	$ 4,471,862	$ (2,297,132)	-51%
Total Liabilities	**$ 86,414,840**	**$ 12,224,680**	$ 74,190,160	607%
Unexpended Appropriations-Funds from Dedicated Collections	$ 819,020	$ 857,848	$ (38,828)	-5%
Unexpended Appropriations-Funds from other than Dedicated Collections	11,728,689	150,738	11,577,951	7681%
Cumulative Results of Operations-Funds from Dedicated Collections	6,948,472	6,251,781	696,691	11%
Cumulative Results of Operations-Funds from other than Dedicated Collections	229,066	191,954	37,112	19%
Total Unexpended Appropriations	12,547,709	1,008,586	11,539,123	1144%
Total Cumulative Results of Operations	7,177,538	6,443,735	733,803	11%
Total Net Position	**$ 19,725,247**	**$ 7,452,321**	$ 12,272,926	165%
Total Liabilities and Net Position	**$ 106,140,087**	**$ 19,677,001**	$ 86,463,086	439%
Net Cost of Operations	**$ 11,142,853**	**$ 10,367,032**	$ 775,821	7%
Total Budgetary Resources	**$ 15,824,908**	**$ 733,672**	$ 15,091,236	2057%

The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

Consolidated Balance Sheet: The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Fund Balance with Treasury represents 99 percent of total assets as of September 30, 2021.

The pie chart below presents the total assets of the Commission as of September 30, 2021. The Fund Balance with Treasury of $105,213 million is related to USF; TRS; newly-established Emergency Broadband Connectivity Fund - Emergency Broadband Benefit Program (EBCF-EBBP), ECF, and S&T Networks; and spectrum auctions program.

The Accounts Receivable balance of $823 million is primarily due to USF receivables totaling $750 million.



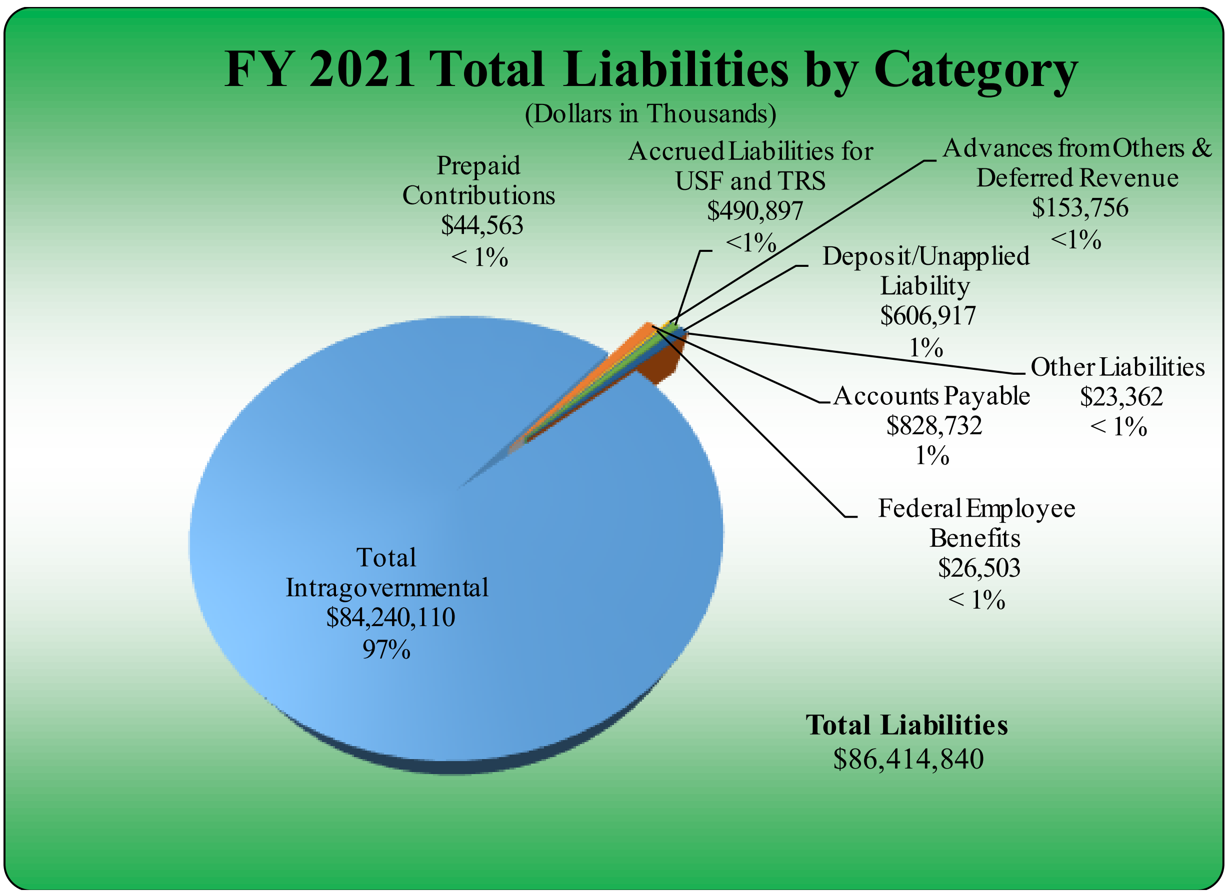
The pie chart below presents the total liabilities of the Commission as of September 30, 2021. The Commission's most significant liabilities are Total Intragovernmental of $84,240 million and Accounts Payable of $829 million, which accounted for 98 percent of total liabilities as of September 30, 2021.

The Total Intragovernmental is primarily composed of custodial collections earned from spectrum auctions program and miscellaneous receipts.

The Accounts Payable balance is primarily comprised of the expense accrual for the TV Broadcasters Relocation Fund (TVBRF), EBCF-EBBP, Connect America Fund (CAF) II, Sandwich Isles Communications, Alternative Connect American Cost Model (A-CAM) and A-CAM II support.

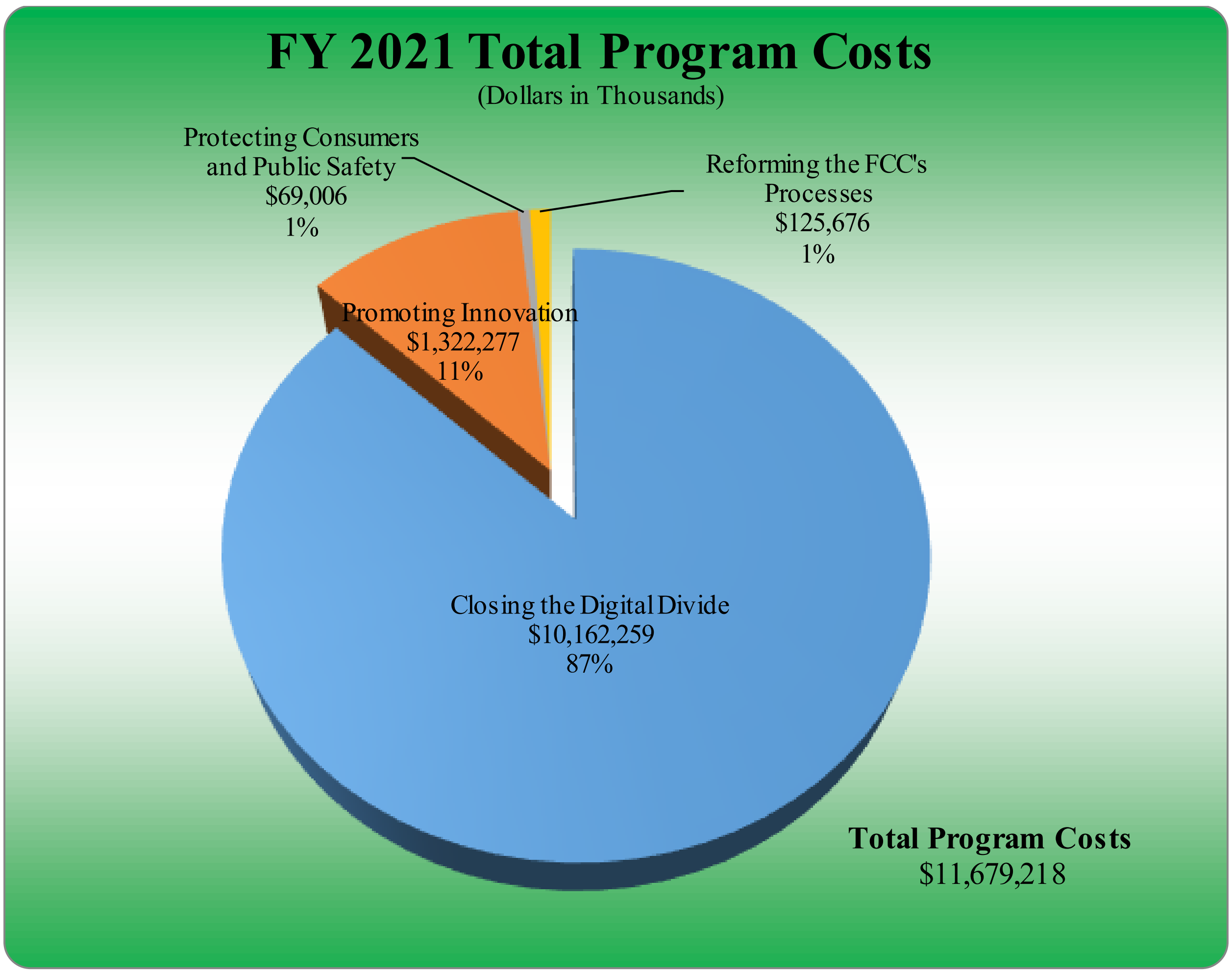
The Deposit/ Unapplied Liability balance is mainly due to upfront deposits for Auction 110 as of September 30, 2021.

The Accrued Liabilities for USF and TRS represent the expected October (FY 2022) payments for the USF's High Cost Legacy Support, Lifeline Program, and the expected October and November (FY 2022) payments for the TRS Program.



<u>*Consolidated Statement of Net Cost*</u>: This statement presents the annual cost of operating the Commission's programs. The Consolidated Statement of Net Cost is aligned with the four strategic goals of the Commission: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Gross program costs for each goal are presented individually while revenue is presented in total rather than by goal. The program costs for the USF are allocated to strategic goals Closing the Digital Divide and Promoting Innovation, and the program costs for the TRS are allocated to the strategic goal Closing the Digital Divide. Due to the accounting for these activities, the cost for some goals may be significantly higher than the cost of other goals. Contributions received for the USF and TRS programs are shown on the Statement of Changes in Net Position and do not directly offset the costs of these programs on the Statement of Net Cost.

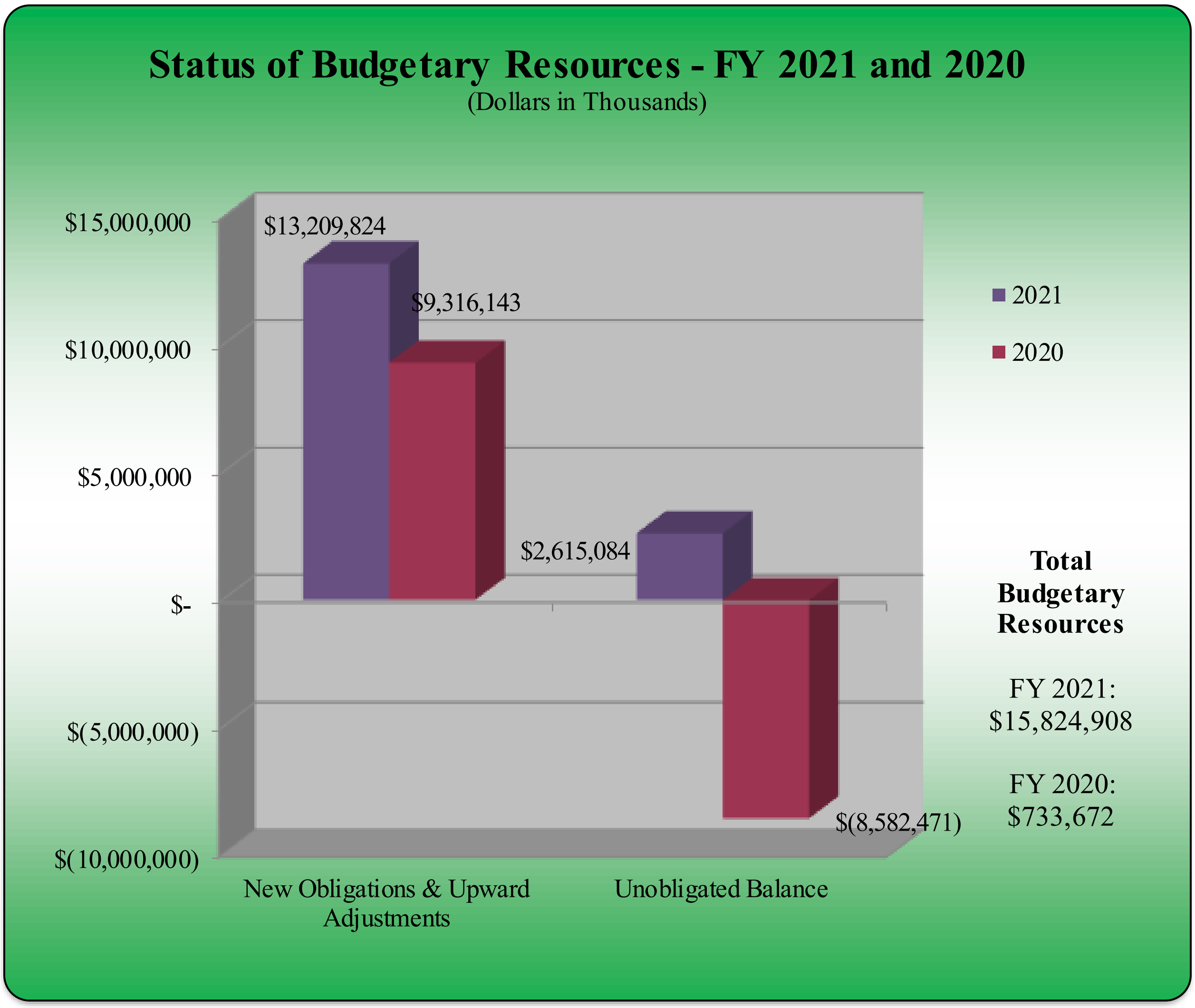
The pie chart below presents the total program costs of each strategic goal.



<u>*Consolidated Statement of Changes in Net Position*</u>: This statement presents the cumulative net results of operations and total unexpended appropriations in order to understand the nature of changes to the net position as a whole. In FY 2021, the Commission's Net Position increased $12,273 million or 165 percent to $19,725 million compared to the net position of $7,452 million for FY 2020.

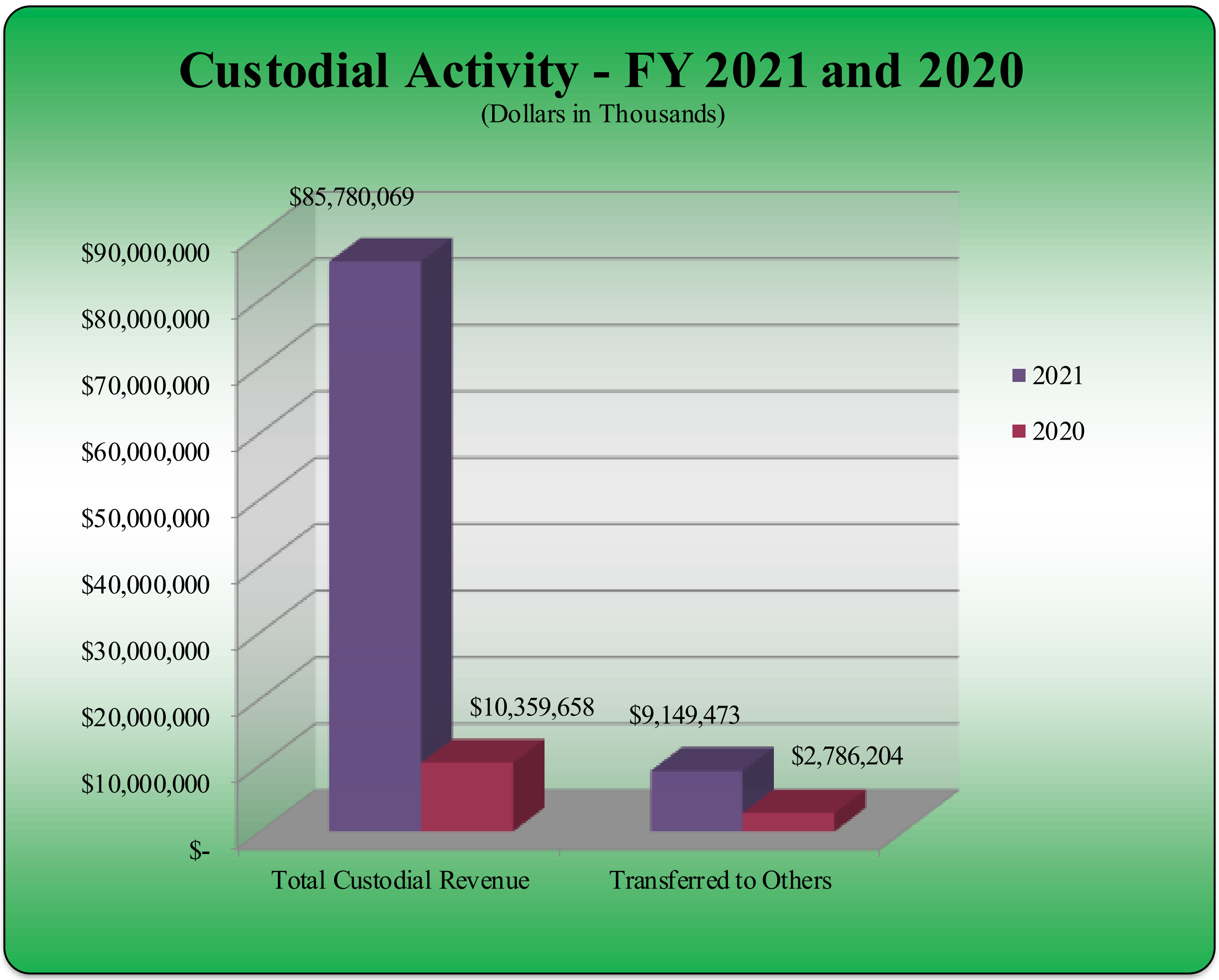
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. Budgetary resources consist of the resources available to the Commission at the beginning of the year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. The Commission had $13,210 million in new obligations and upward adjustments, a $2,615 million unobligated balance and $15,825 million in total budgetary resources. The abnormal balances in FY 2020 is related to CAF Phase II Auction and A-CAM II obligations. These support mechanisms are part of the High Cost program under the USF, which are exempt from the Antideficiency Act through December 31, 2021.

The chart below presents the status of budgetary resources comparatively between FY 2021 and FY 2020.



Consolidated Statement of Custodial Activity: In FY 2021, the Commission recognized $85,780 million in custodial revenue. In FY 2021, the Commission transferred $4,476 million from auction 103 to the Public Safety Trust Fund managed by the National Telecommunication and Information Administration (NTIA) and $4,466 million from auction 105 to Spectrum Relocation Fund administered by Office of Management and Budget (OMB). In addition, the Commission transferred $207 million from miscellaneous receipts, fines, and penalties to the Treasury General Fund. In FY 2020, the Commission recognized $10,360 million in custodial revenue. From this balance, $3,084 million in auction revenue was paid for reverse incentive auction winners. The Commission also transferred $2,723 million of earned auctions revenue and $63 million in miscellaneous receipts, fines and penalties to the Treasury General Fund.

The chart below compares the total amount of custodial revenue and amounts transferred to other entities between FY 2021 and FY 2020.



Other Key Financial Statement Highlights

Regulatory Fee Collections

Pursuant to 47 U.S.C. § 159, the Commission annually collects regulatory fees and retains them to offset certain costs incurred by the Commission. The amount the Commission is required to recover is included in the Commission's appropriations.

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2021, the Commission was required to collect $374 million in regulatory fees. Excess collections were $4 million above the required regulatory fee level and transferred to the General Fund of the Treasury for the sole purpose of deficit reduction.

Limitations on the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Commission, pursuant to the requirements of 31 U.S.C. § 3515(b). While the principal financial statements have been prepared from the books and records of the Commission in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

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II. Financial Statements and Auditor's Report

Transmittal from Office of Inspector General

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2021

TO: Chairwoman

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2021 (Report No. 21-AUD-06-01)

As required by the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the Federal Communications Commission's (FCC) fiscal year (FY) 2021 financial statements.

Kearney's reports include an opinion on FCC's financial statements, a report on internal control over financial reporting, and a report on compliance and other matters. Kearney found that the financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. In addition, Kearney did not find any reportable instances of noncompliance with laws, regulations and contracts applicable to FCC.

However, Kearney identified two significant deficiencies in internal control over financial reporting:

- The first deficiency was related to information technology (IT) controls at FCC and Universal Service Fund (USF), which was a repeat issue from the fiscal year 2020 and prior year audit reports; and

- The second deficiency resulted from a material erroneous financial transaction for civil money penalty (CMP) receivables and custodial revenues that was not detected by the FCC's internal controls.

The internal control report summarizes the IT deficiencies noted during the Federal Information Security Management Act (FISMA) evaluation and IT testing in support of the financial statement audit and CMP financial reporting control deficiency. Kearney deemed the aggregate of the IT deficiencies to be a significant deficiency in financial reporting. Kearney made 13 recommendations to improve the effectiveness of IT controls over FCC and Universal Service Administrative Company systems. The details of the IT findings and recommendations are included in the separate FISMA evaluation report. In addition, Kearney made 3 new recommendations to strengthen the processes and controls over CMP receivables and custodial revenues.

Kearney is responsible for the attached auditor's report, dated November 15, 2021, and conclusions expressed therein. In connection with our contract, we reviewed Kearney's reports and related documentation and inquired of its representatives. Our review did not disclose any instances where Kearney did not comply, in all material respects, with Government Auditing Standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted auditing standards, was not intended to enable us to express, and accordingly, we do not express opinions on FCC's financial statements or internal control over financial reporting, or on compliance with laws and regulations and other matters.

The Office of Inspector General appreciates the cooperation and courtesies you extended to our staff and Kearney's staff during the audit.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Officer

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INDEPENDENT AUDITOR'S REPORT

To the Chairwoman, Managing Director, and the Inspector General of the Federal Communications Commission:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Communications Commission (FCC, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, the related consolidated statements of net cost and changes in net position, the consolidated statement of custodial activity and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2021 and 2020 and its net cost of operations, changes in net position, custodial activities and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit(s) of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04, we have also issued reports, dated November 15, 2021, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended

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September 30, 2021. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2021

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairwoman, Managing Director, and the Inspector General of the Federal Communications Commission:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*; the financial statements of the Federal Communications Commission (FCC), as of and for the year ended September 30, 2021; and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FCC's Internal Control Over Financial Reporting (Internal Control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 21-04. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during

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our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

The FCC's Responses to Findings

The FCC's response and concurrence to the findings identified in our audit is included in the memorandum from management, entitled *Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2021*, included in the FCC's Agency Financial Report (AFR). The FCC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, not to provide an opinion on the effectiveness of the FCC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2021

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Schedule of Findings

I. Information Technology *(Modified Repeat Condition)*

Background: The Federal Communications Commission (FCC) uses information systems to compile information for financial reporting purposes, including the FCC's core financial management and accounting system, Genesis. The FCC's general information technology (IT) support system serves as the gateway for users to access FCC information and information systems, including Genesis. In addition, because the FCC's financial statements include financial transactions relating to the Universal Service Fund (USF) programs, the FCC relies upon general IT support systems and specific applications utilized by the administrator of the USF programs (i.e., Universal Service Administrative Company [USAC]).

Kearney & Company, P.C. (Kearney) separately performed an evaluation of the FCC's Information Security Program, as required by the Federal Information Security Modernization Act of 2014 (FISMA), and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could lead to significant misstatements of, or corruption to, the financial data needed for the FCC's financial statements. We performed this work in accordance with the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as Risk Management, Access Controls, Configuration Management, and Contingency Planning. Other IT controls areas are unique to FISCAM due to their relevance to financial management and reporting, such as segregation of duties and application controls. We performed risk-based procedures related to segregation of duties within Genesis. Additionally, we performed risk-based procedures related to the core financial management system utilized by USAC to administer the USF programs, the Financial Operations System (FOS), as well as USAC's Schools and Libraries (S&L) account and application management system, E-Rate Productivity Center (EPC). The fiscal year (FY) 2021 FISMA evaluation report includes detailed information for each identified finding.

Condition: The following summarizes the IT control deficiencies noted during the FISMA evaluation and FISCAM testing in support of the financial statement audit. In aggregate, Kearney considers these control deficiencies to be a significant deficiency.

- **FCC General IT Support System** – The FY 2021 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC's general IT support system, including Identity and Access Management and Information Security Continuous Monitoring (ISCM). Most notably, the FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for logical access, nor did it consistently remediate identified network vulnerabilities within the timeframes required by FCC policy. The FCC's general IT support system serves as the gateway for users to access Genesis. Therefore, IT deficiencies noted in the general IT support system, as described above, may impact Genesis as well

- **USAC Systems Utilized in Administering the USF Programs** – Similar to the FCC, USAC's general IT support system is the gateway for users to access USAC's FOS. USAC failed to properly manage user accounts with access to both the general IT support system and FOS/Great Plains. Further, USAC did not perform reviews of required auditable events captured in an EPC application audit log in accordance with USAC's policies and internal control documentation. Required auditable events include access changes to EPC user accounts.

Cause: The FCC's and USAC's ongoing efforts to implement planned corrective actions, remediate longstanding IT deficiencies in its IT general support system, modernize legacy technologies, and fully implement all documented information security policies, procedures, and processes continue to require prioritization. Specific causal information for each issue identified during the FY 2021 FISMA evaluation is addressed in the Non-Public FISMA Evaluation Report.

Effect: Inadequate controls over IT security can affect the integrity of financial applications, which increases the risk that unauthorized individuals could access sensitive financial information or that financial transactions could be altered, either accidentally or intentionally. IT deficiencies increase the risk that the FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2021 FISMA evaluation report included 13 recommendations intended to improve the effectiveness of the FCC's Information Security Program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, and ISCM. Six of the recommendations related to the FCC and seven of the recommendations related to USAC. Of the six FCC recommendations, five related to FISCAM control areas. All seven of the USAC recommendations related to FISCAM control areas.

II. Inaccurate Recognition of FCC Non-Exchange Revenue *(New Condition)*

Background: The FCC is responsible for regulating interstate and foreign communication. When the FCC's Bureaus become aware of failures to comply with the terms and conditions of any license, permit, certificate, or authorization and/or violations of FCC rules, they report the matter to the Enforcement Bureau (EB) to investigate. The EB informs the respondent of the issue and the potential Civil Monetary Penalty (CMP) through a Notice of Apparent Liability (NAL).

If the respondent does not provide an acceptable response to the NAL, the FCC can issue a Forfeiture Order. The FCC recognizes and records an account receivable (AR) and a custodial revenue for CMPs (e.g., a Forfeiture Order, a Consent Decree [CD], or a payment plan). The respondent is expected to pay a CMP in accordance with the specific payment terms defined in the CD, court order, or payment plan.

Based on historical information, the FCC estimates the uncollectible portion of Forfeiture Order CMP AR balances. The estimate is recorded as a contra asset account and a contra custodial revenue account – allowance for doubtful accounts (ADA) in the general ledger (GL). For certain Forfeiture Order CMPs, the FCC expects 100% of the AR balances to be uncollectable. In this instance, the ADA provision will be recorded at 100% of the AR balances.

The FCC's current process to confirm the reasonableness of the allowance for doubtful accounts is to analyze all open AR equal to or greater than $1 million. All outstanding Forfeiture Orders equal to or greater than $3 million are further reviewed and evaluated for collectability by the EB on a monthly basis. For CMPs exceeding or equal to $100,000, the Revenue Receivables Operations Group (RROG) Chief is required to review and certify them.

As part of our year-end audit procedures, Kearney validates the information reported in the FCC's draft Agency Financial Report (AFR). Our review of Management's Discussion and Analysis resulted in the identification of an accounting error in financial reporting.

Condition: The FCC incorrectly recorded an accounting transaction related to CMPs. Specifically, for one Forfeiture Order, the FCC recorded $225,000 to the GL when the fine was $225 million. In addition, because of this accounting error, the FCC did not properly assess a corresponding provision for ADA on the incorrectly recorded CMP receivable balance.

Cause: While the FCC has developed a process for tracking and updating CMPs, including supervisory-level reviews, the process was not always effective, as the reviewer did not properly detect a material erroneous transaction. Additionally, the erroneous recording of the CMP receivable stemmed from ineffective implementation of the EB's monitoring review as a control activity. As part of the FCC's internal control, the EB is required to review the reasonableness of the allowances for all forfeitures over $3 million. As the $225 million Forfeiture Order was above the threshold limit, at month-end, the Office of General Counsel (OGC) and the EB should have expected the amount to show up in the RROG monthly CMP receivable report as part of its monitoring control and should have alerted the RROG when the $225 million was not in the report.

Effect: The FCC improperly recorded AR, custodial revenue, and ADA transactions in FY 2021, resulting in a misstatement in the FY 2021 financial statement footnotes. Specifically, the FCC understated the "Gross Accounts Receivable" line by $224,775,000 and understated the "Allowance for Doubtful Accounts" line by $224,831,250 on the AR footnote, Note 4. Since the transaction is a fully reserved custodial revenue, the ADA is recorded to a contra revenue account and the net effect does not impact the Statement of Net Cost.

Further, without improved monitoring controls, errors may occur and remain undetected.

Recommendation: Kearney recommends that the FCC strengthen processes and internal controls surrounding the reporting of CMP receivables and custodial revenues.

Specifically, Kearney recommends that the FCC perform the following:

1. Strengthen monitoring controls over custodial revenue transactions resulting from CMPs by implementing an additional level of review over all CMP transactions to ensure they are recorded accurately. *[New]*
2. Strengthen OGC's and the EB's role in determining the completeness of the RROG's CMP receivable schedule by ensuring OGC and the EB review the list to ensure all open CMP receivables over the appropriate thresholds are included. *[New]*
3. Enforce its policy to effectively agree source documentation to the Genesis CMP detail. *[New]*

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Federal Communications Commission's (FCC) fiscal year (FY) 2020 financial statements,[1] Kearney & Company, P.C. (Kearney) noted one reportable finding. The status of the FY 2020 internal control findings and recommendations are summarized in ***Exhibit 1*** and ***Exhibit 2***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2020 Status	FY 2021 Status
Information Technology (IT)	Significant Deficiency	Significant Deficiency

During the FY 2020 financial statement audit, Kearney made specific recommendations to the FCC related to the control deficiency, as noted above, to strengthen the FCC's internal control environment over financial reporting. The status of the FY 2020 internal control recommendations is summarized in ***Exhibit 2***.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2021 Status
IT[2]	Kearney issued 17 IT-related recommendations in FY 2020	10 Open 7 Closed

[1] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in the FCC's FY 2020 AFR.

[2] Kearney issued 17 recommendations in the FY 2020 FISMA evaluation report. During FY 2021, the FCC took appropriate action to close 7 recommendations, and we either updated or re-issued the 10 recommendations that remain open. The FY 2021 FISMA evaluation report includes additional, detailed information on each of the 17 prior-year recommendations.

Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Chairwoman, Managing Director, and the Inspector General of the Federal Communications Commission:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*; the financial statements of the Federal Communications Commission (FCC), as of and for the year ended September 30, 2021; and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04. Although our audit procedures did not identify any instances of known noncompliance in fiscal year (FY) 2021, FCC management communicated potential instances of noncompliance with the Antideficiency Act (ADA) based on events that occurred in FYs 2011 and 2019. The ADA prohibits the FCC from obligating or expending Federal funds in advance or in excess of an appropriation, as well as from accepting voluntary services. These potential instances of noncompliance were still being researched by FCC as of September 30, 2021.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, not to provide an opinion on the effectiveness of the FCC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2021

Commission's Response to Independent Auditor's Reports

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSON

Office of the Managing Director

DATE: November 15, 2021

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
Shaun Costello, Acting Chief Information Officer

SUBJECT: Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2021

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control over Financial Reporting and Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements*. As always, the Federal Communications Commission (FCC or Commission) appreciates the efforts of the Office of Inspector General and its independent auditor, Kearney and Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the sixteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2021 present fairly, in all material respects, the financial position of the Commission as of September 30, 2021. In addition, the results of the audit tests disclosed no instances of noncompliance or other matters that are required to be reported.

Despite this successful outcome, work remains here at the Commission. The FY 2021 audit report identified one significant deficiency related to information technology controls and another related to internal control related to an isolated instance of recording a forfeiture order incorrectly that had no effect on the Commission's consolidated financial statements other than to one of the notes to the consolidated financial statements. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2022 to resolve the FY 2021 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens Digitally signed by Mark Stephens Date: 2021.11.15 06:29:17 -05'00'

Mark Stephens
Managing Director
Office of Managing Director

Jae Seong Digitally signed by Jae Seong Date: 2021.11.15 05:20:30 -05'00'

Jae Seong
Chief Financial Officer
Office of Managing Director

Shaun H. Costello Digitally signed by Shaun H. Costello Date: 2021.11.15 06:21:46 -05'00'

Shaun Costello
Acting Chief Information Officer
Office of Managing Director

Principal Statements

Federal Communications Commission

Consolidated Balance Sheets

As of September 30, 2021 and September 30, 2020

(Dollars in thousands)

	FY 2021	FY 2020
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 105,212,774	$ 18,787,296
Accounts receivable, net (Note 4)	361	439
Advances and prepayments	1,639	2,863
Total intragovernmental	105,214,774	18,790,598
With the Public:		
Accounts receivable, net (Note 4)	823,087	788,501
General property, plant and equipment, net (Note 5)	84,202	79,878
Advances and prepayments	18,024	18,024
Total with the public	925,313	886,403
Total assets	$ 106,140,087	$ 19,677,001
Liabilities (Note 6):		
Intragovernmental:		
Accounts payable	$ 1,402	$ 10,525
Other liabilities (Note 7)		
Liability to the General Fund of the U.S. Government for custodial and other non-entity assets	84,234,840	7,738,740
Other liabilities	3,868	3,553
Total other	84,238,708	7,742,293
Total intragovernmental	84,240,110	7,752,818
With the Public:		
Accounts payable	828,732	827,857
Federal employee benefits payable	26,503	26,419
Advances from others and deferred revenue	153,756	2,997,879
Other liabilities (Note 7)		
Prepaid contributions	44,563	108,399
Accrued liabilities for USF and TRS	490,897	483,329
Deposit/Unapplied liability	606,917	-
Other	23,362	27,979
Total other liabilities	1,165,739	619,707
Total with the public	2,174,730	4,471,862
Total liabilities	$ 86,414,840	$ 12,224,680
Net position:		
Unexpended Appropriations-Funds from Dedicated Collections (Note 9)	$ 819,020	$ 857,848
Unexpended Appropriations-Funds from other than Dedicated Collections	11,728,689	150,738
Total Unexpended Appropriations (Consolidated)	12,547,709	1,008,586
Cumulative Results of Operations-Funds from Dedicated Collections (Note 9)	6,948,472	6,251,781
Cumulative Results of Operations-Funds from other than Dedicated Collections	229,066	191,954
Total Cumulative Results of Operations (Consolidated)	7,177,538	6,443,735
Total net position	19,725,247	7,452,321
Total liabilities and net position	$ 106,140,087	$ 19,677,001

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Net Cost
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands)

	FY 2021	FY 2020
Gross Program costs:		
Closing the Digital Divide		
Total Program Cost	$ 10,162,259	$ 9,183,823
Promoting Innovation		
Total Program Cost	1,322,277	1,456,872
Protecting Consumers and Public Safety		
Total Program Cost	69,006	71,516
Reforming the FCC's Processes		
Total Program Cost	125,676	161,254
Less: earned revenues not attributed to programs	(536,365)	(506,433)
Net cost of operations	$ 11,142,853	$ 10,367,032

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands)

	FY 2021			FY 2020		
	Funds from Dedicated Collections (Note 9)	Funds from Other than Dedicated Collections	Consolidated Total	Funds from Dedicated Collections (Note 9)	Funds from Other than Dedicated Collections	Consolidated Total
Unexpended Appropriations:						
Beginning Balance, as adjusted	$ 857,848	$ 150,738	$ 1,008,586	$ 982,952	$ 2,816	$ 985,768
Appropriations received	-	12,586,950	12,586,950	-	200,000	200,000
Appropriations used	(38,828)	(1,008,999)	(1,047,827)	(125,104)	(52,078)	(177,182)
Net change in Unexpended Appropriations	(38,828)	11,577,951	11,539,123	(125,104)	147,922	22,818
Total Unexpended Appropriations	$ 819,020	$11,728,689	$ 12,547,709	$ 857,848	$ 150,738	$ 1,008,586
Cumulative Results of Operations:						
Beginning Balance, as adjusted	$ 6,251,781	$ 191,954	$ 6,443,735	$ 7,158,613	$ 222,898	$ 7,381,511
Appropriations used	38,828	1,008,999	1,047,827	125,104	52,078	177,182
Non-exchange revenue	10,849,923	50	10,849,973	9,271,661	3,320	9,274,981
Imputed financing	-	13,240	13,240	-	11,670	11,670
Other	-	(34,384)	(34,384)	-	(34,577)	(34,577)
Net Cost of Operations	10,192,060	950,793	11,142,853	10,303,597	63,435	10,367,032
Net Change in Cumulative Results of Operations	696,691	37,112	733,803	(906,832)	(30,944)	(937,776)
Cumulative Results of Operations: Ending	6,948,472	229,066	7,177,538	6,251,781	191,954	6,443,735
Net Position	$ 7,767,492	$11,957,755	$ 19,725,247	$ 7,109,629	$ 342,692	$ 7,452,321

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands)

	FY 2021	FY 2020
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ (8,023,330)	$ (9,387,542)
Appropriations (discretionary and mandatory)	23,338,751	9,648,793
Spending authority from offsetting collections (discretionary and mandatory)	509,487	472,421
Total budgetary resources	$ 15,824,908	$ 733,672
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 13,209,824	$ 9,316,143
Unobligated balance, end of year		
Apportioned, unexpired accounts	11,485,161	1,114,240
Exempt from apportionment, unexpired accounts	(8,870,348)	(9,715,020)
Unapportioned, unexpired account	34	18,105
Unexpired unobligated balance, end of year	2,614,847	(8,582,675)
Expired unobligated balance, end of year	237	204
Unobligated balance, end of year (total)	2,615,084	(8,582,471)
Total budgetary resources	$ 15,824,908	$ 733,672
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 11,152,514	$ 10,271,908
Distributed offsetting receipts (-)	(34,679)	(29,769)
Agency outlays, net (discretionary and mandatory)	$ 11,117,835	$ 10,242,139

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands)

	FY 2021	FY 2020
Total Custodial Revenue:		
Sources of Cash Collections:		
Spectrum Auctions	$85,564,050	$10,291,811
Fines and Penalties	207,301	63,343
Total Cash Collections	85,771,351	10,355,154
Accrual Adjustments (+/-)		
Fines and Penalties	8,718	4,504
Total Accrual Adjustments	8,718	4,504
Total Custodial Revenue (Note 15)	85,780,069	10,359,658
Disposition of Collections:		
Transferred to Others (by Recipient):		
U.S. Treasury	(207,301)	(2,786,204)
Spectrum Relocation Fund (OMB)	(4,466,079)	-
Public Safety Trust Fund (NTIA)	(4,476,093)	-
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(76,496,101)	(4,356,742)
Increase/(Decrease) in Refunds Payable and Other Custodial Liabilities (+/-)		
Auctions Salaries & Expenses (FCC) (Note 12)	(134,495)	(132,539)
Reverse Incentive Auction Winners	-	(3,084,173)
Total Disposition of Collections	(85,780,069)	(10,359,658)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands unless otherwise stated)

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Communications Commission (FCC or Commission) is an independent United States government agency, established by the Communications Act of 1934 (Act), as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. The Commission is directed by five Commissioners who are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term or serving in holdover status.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the Telecommunications Relay Service (TRS) Fund. The USF reports the results of the four universal service programs (established pursuant to section 254 of the Act, as amended), and the Connected Care Pilot Program (CCPP). Section 510 of Division E of the Consolidated Appropriations Act, 2021, P.L. 116–260, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, extending the universal service programs exemption from the application of the provisions of the Antideficiency Act until December 31, 2021. Accordingly, the USF is not subject to apportionment by the Office of Management and Budget (OMB). The TRS Fund was established by the Americans with Disabilities Act of 1990, Title IV, and is not exempt from the Antideficiency Act and must be apportioned by OMB before funds are available for use. Information regarding disclosure entities is separately disclosed in Note 17.

B. Basis of Accounting and Presentation

The consolidated and combined financial statements (financial statements) have been prepared from the accounting records of the Commission and its components, in conformity with U.S. generally accepted accounting principles (GAAP) and the form and content for federal entity financial statements specified by OMB Circular No. A-136, *Financial Reporting Requirements—Revised*. Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

C. Classified Activities

Statement of Federal Financial Accounting Standards (SFFAS) 56, *Classified Activities*, requires all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Note 1 – Summary of Significant Accounting Policies (continued)

D. Fund Balance with Treasury

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general, revolving, special, and deposit funds. The Commission may use the general and revolving funds to finance expenses, depending on budgetary availability. The special funds are used to account for dedicated collections and deposit funds are used to hold amounts temporarily until they can be properly disbursed or distributed.

E. Accounts Receivable, Net

Accounts Receivable consists of claims made for payment from the public and other federal entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

The Commission's portion of the allowance for doubtful accounts is determined by applying predetermined percentages against the respective date the receivable was established. An additional analysis of higher dollar value receivables is also performed on individual account balances. As such, an additional allowance for doubtful accounts for the higher dollar value receivables may be recorded considering inherent uncertainties and risks.

The USF portion of the allowance is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

The TRS portion of the allowance is based on estimated exposure to risk of nonpayment of billed balances, primarily based collection experience. The allowance includes reserves for identified bankruptcies, identified inactive contributors, contributors on appeal more than two years, delinquent amounts that are referred to Treasury for collection, and other items. The TRS administrator periodically reviews the estimates and may change the assessment of recoverability based on actual results.

F. General Property, Plant and Equipment, Net

The basis for recording purchased General Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The capitalization threshold is $100 for PP&E and $200 for internally developed software with an estimated useful life of two years or more. There is no capitalization of bulk purchases of similar items. PP&E is depreciated on a straight-line basis over the estimated useful lives of the items.

The following chart summarizes the PP&E classifications with related estimated useful lives:

PP&E Classification	Estimated Useful Lives (years)
Building	40
Non-Computer Equipment	7
Computer & Vehicle Equipment	5
Software	3

Land, including permanent improvements, and software in development are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Note 1 – Summary of Significant Accounting Policies (continued)

F. General Property, Plant and Equipment (continued)

Leasehold and building improvements, which includes all cost incurred during the design and construction phase of the improvement, are either amortized over the remaining life of the lease and building or the useful life of the improvement, whichever is shorter.

G. Advances and Prepayments

Intragovernmental advances and prepayments represents advance payments for intragovernmental agreements. Advances and prepayments with the public represent the balance of transfers less expenses made by the USF to the Universal Service Administrative Company (USAC) to fund administrative costs in advance. Advances are drawn down as expenses are incurred and a balance typically remains in this account for future expenses.

H. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the U.S. Government, which is a sovereign entity, and its components, which includes the Commission.

The USF and TRS expenses are non-exchange expenses. Accrued Liabilities for USF mostly represent liabilities recorded for anticipated subsidies in the Lifeline program, and for all legacy support mechanisms within the High Cost program and TRS support mechanisms. An Accounts Payable accrual is recorded for subsidies related to support mechanisms in the following USF and TRS programs: Connect America Fund (CAF) Phase II, CAF Phase II reverse auction (CAF II Auction), Rural Broadband Experiment, Alternative Connected America Cost Model (A-CAM), A-CAM II, Alaska Plan, Puerto Rico and the Virgin Islands, and Rural Digital Opportunity Fund (RDOF). The Commission does not accrue for payments under the Schools & Libraries (E-Rate) or Rural Health Care programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

Similar to the USF Rural Health Care and E-Rate program, the expenses related to the 2019 Novel Coronavirus (COVID-19) Telehealth Program and the Emergency Connectivity Fund (ECF) are non-exchange expenses. The Commission does not accrue payments under the COVID-19 Telehealth Program or ECF until submitted eligible expenses are approved for payment. The Emergency Broadband Connectivity Fund's Emergency Broadband Benefit Program (EBCF-EBBP) expenses are also non-exchange and is similar to the Lifeline program. The Commission accrues expected payments. Refer to Note 18 for more information.

Accrued Liabilities for the TV Broadcaster Relocation Fund (TVBRF) represent liabilities for exchange expenses which includes invoices received but not processed and costs incurred but not invoiced related to relocation costs incurred by full power and Class A broadcasters that were reassigned to new channels as a result of the Broadcast Incentive Auction, as well as certain costs incurred by multichannel video program distributors (MVPDs), Television translator stations (LPTV/TV Translator) and by FM radio stations (FM stations). For this program, an accrued liability for invoices received but not processed and for costs incurred but not invoiced is made to Accounts Payable.

Note 1 – Summary of Significant Accounting Policies (continued)

I. Advances From Others and Deferred Revenue

The Commission's advances from others and deferred revenue consists entirely of deferred revenue. The Commission collects proceeds from the sale of spectrum licenses on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued.

In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

The TRS collects contributions from telecommunications carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

J. Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portion of future benefits earned by federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent (7%) of basic pay. Under all FERS plans, the Commission contributes the employer's matching share for Social Security. All employees are eligible to contribute to the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan. For those employees covered by the FERS plans, a TSP account is automatically established to which the Commission is required to contribute one percent (1%) of gross pay, match dollar-for-dollar on the first three percent (3%) of pay contributed each pay period, and match 50 cents on the dollar for the next two percent (2%) of pay contributed. No government contributions are made to the TSP accounts established by CSRS employees. Most employees hired after December 31, 1983, are covered by the FERS plans.

OPM reports on CSRS, FERS, FERS-RAE, and FERS-FRAE assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees. The actuarial liability for future workers' compensation benefits payable includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payment.

The unfunded Federal Employees' Compensation Act (FECA) liability covers compensation and medical benefits for work related injury. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by the Department of Labor.

Note 1 – Summary of Significant Accounting Policies (continued)

K. Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

L. Exchange Revenue, Non-Exchange Revenue, and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – Pursuant to 47 U.S.C. § 159, the Commission assesses and collects regulatory fees to recover the costs incurred in carrying out its mission through its strategic goals: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected in annual Appropriations Acts. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The Repack Airwaves Yielding Better Access for Users of Modern Services Act of 2018 (RAY BAUM'S Act), Division P of P.L. 115-141, requires the Commission to transfer all excess regulatory fee collections from prior and subsequent fiscal years to the General Fund of the Treasury for the sole purpose of deficit reduction. The Commission collected the appropriated regulatory fee levels of $374,000 for FY 2021 and $339,000 for FY 2020. The Commission also collected $3,780 above the required regulatory level in FY 2021 and $6,310 above the required level in FY 2020. As of September 30, 2021, the Commission transferred excess regulatory fee collections totaling $145,049 to the Treasury.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auctions program. Proceeds from the auctions are initially remitted to the Commission and are later transferred either to the Treasury or to the appropriate agency as required by applicable laws. Pursuant to 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function. Collections used to offset the cost of performing auctions-related activity were appropriated at $134,495 for FY 2021 and $132,539 for FY 2020.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of SFFAS 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined in the marketplace at the time of auction. The Commission recognized $85,564,050 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2021 and $10,291,811 in FY 2020. In FY 2021, the Commission transferred $4,476,093 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA) and $4,466,079 to the Spectrum Relocation Fund which is administered by the OMB. In FY 2020, the Commission transferred $2,725,238 to the Treasury General Fund.

Application Fees (Exchange) – Pursuant to 47 U.S.C. § 158, the Commission collects application processing fees at such rates as the Commission establishes in a schedule of application fees to recover the costs of the Commission to process applications. Subparagraph b of section 158 requires the Commission to review and amend its schedule of application fees every two years based on the net change in the Consumer Price Index (CPI) calculated over a specific period of time. Application fees are deposited in

Note 1 – Summary of Significant Accounting Policies (continued)

L. Exchange Revenue, Non-Exchange Revenue, and Financing Source (continued)

the Treasury and are not available for the Commission's use. Application fee revenue totaled $28,553 in FY 2021 and $24,947 in FY 2020. The most recent Report and Order increasing application fees to reflect changes in the CPI was adopted by the Commission on December 23, 2020 and released on December 29, 2020 to implement the RAY BAUM'S Act of 2018. In this Report and Order, the Commission adopted a new schedule of application fees that aligns with the types of applications the Commission receives and correlates the fees charged to the direct costs of processing the associated applications.

900 Megahertz (MHz) Anti-Windfall Program (Exchange) – On May 13, 2020, the Commission realigned the 900 MHz band to make available six megahertz of low-band spectrum for the development of critical wireless broadband technologies and services, while reserving the remaining four megahertz of spectrum for continued narrowband operations. Applicants that relinquish less than six megahertz of spectrum are required to make an anti-windfall payment before the Commission will grant its 900 MHz broadband segment application. Anti-windfall payment revenue totaled $2,002 in FY 2021.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $831 in FY 2021 and $1,294 in FY 2020.

Allocation of Exchange Revenues – The Commission reports the entire balance of exchange revenue on the line "Less: earned revenues not attributed to programs" since there is no direct relationship between earned revenues and specific programs.

USF and TRS (Non-Exchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service programs and TRS. These contributions represent dedicated collections. In addition to contributions, non-exchanged revenues also include fines, penalties, and interest. Non-exchanged revenues earned in FY 2021 were $9,292,814 by USF and $1,557,109 by TRS. Non-exchanged revenues earned in FY 2020 were $7,815,880 by USF and $1,455,781 by TRS. For more information, refer to Note 9 and Note 20.

Appropriations (Financing Source) – The Commission receives a Salaries and Expense appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. Since FY 2014, Congress has authorized the Commission to retain its appropriation as available until expended. The Commission's no-year appropriations were $374,000 for FY 2021, which includes $33,000 specifically dedicated to implement the requirements of the Broadband Deployment Accuracy and Technological Availability Act (Broadband DATA Act), and $339,000 for FY 2020. In FY 2021, Consolidated Appropriations Act, 2021, Division N - Additional Coronavirus Response and Relief, 2021 P.L. 116-260, (Division N) appropriated an additional $249,950 to the Commission's COVID-19 Telehealth Program (Round 2) to help health care providers provide telehealth services to patients at their homes or mobile locations in response to the COVID-19 pandemic. In FY 2020, the COVID-19 Telehealth Program (Round 1) was funded through a $200,000 appropriation as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In FY 2021, The Consolidated Appropriations Act, 2021, Division N, authorized additional $65,000 for the Broadband DATA Act implementation. The Broadband DATA Act, among other things, requires the FCC to collect standardized, granular data on the availability and quality of both fixed and mobile broadband Internet access services, to create publicly available coverage maps, to establish processes for members of the public and other entities to challenge and verify the coverage maps, and to create a common dataset of all locations where

Note 1 – Summary of Significant Accounting Policies (continued)

L. Exchange Revenue, Non-Exchange Revenue, and Financing Source (continued)

fixed broadband Internet access service can be installed. Regulatory fee collections fully funded the non-Division N no-year appropriations for FY 2021 and FY 2020.

In FY 2021, the EBCF-EBBP, ECF and the Secure and Trusted Communications Networks Reimbursement Program (S&T Networks) were established and funded by Congressional appropriations. For more information on the EBCF-EBBP and ECF see Note 18, and Note 1 P for the S&T Networks.

Subsidy Estimates and Re-estimates (Financing Source) – The Fair Credit Reporting Act (FCRA) of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. As required, the Commission coordinates with OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and re-estimates. The most recent subsidy re-estimate was completed on September 30, 2015. Since there are no active loans, OMB has waived the requirement to perform subsidy re-estimate in FY 2021 and FY 2020.

M. Reprogramming

For the year ended September 30, 2021, the Commission did not receive all approvals for reprogramming of prior year de-obligated funds. In FY 2020, the Commission did not request any reprogramming of prior year de-obligated funds.

N. Net Position

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains. Net position of funds from dedicated collections is separately disclosed in Note 9.

O. Broadcast Incentive Auction

The Broadcast Incentive Auction (BIA) was authorized by provisions in Title VI of the Middle Class Tax Relief and Job Creation Act of 2012, P.L. 112-96 (Spectrum Act). The Spectrum Act established the funding of the TVBRF at $1,750,000. The Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs that were involuntarily reassigned to new channels as a result of the BIA.

Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, also known as the Reimbursement Expansion Act (REA), appropriated an additional $1,000,000 in new funding for the TVBRF, which increased its cap to $2,750,000 and also expanded the universe of entities eligible for reimbursement to cover the costs reasonably incurred by displaced LPTV/TV Translator to relocate or

Note 1 – Summary of Significant Accounting Policies (continued)

O. Broadcast Incentive Auction (continued)

modify their facilities, and by FM stations to reasonably minimize disruption of their services due to the TV repacking process.

The additional $1,000,000 in new funding was appropriated over two fiscal years, $600,000 in FY 2018 and $400,000 in FY 2019. For FY 2018, the REA provides for funding of not more than $350 million to reimburse full power and Class A stations, not more than $150 million for LPTV/TV Translator, and not more than $50 million for FM stations to reimburse such stations for their costs. The REA also provides $50 million in FY 2018 funds for the Commission to use for consumer education relating to the reorganization of broadcast television. The REA did not expressly delineate the use of FY 2019 funds among the various categories of eligible recipients. In implementing the REA for the new universe of entities eligible for reimbursement, the Commission determined in the *REA Report & Order*, adopted March 15, 2020, that reimbursement of full power and Class A stations and MVPDs would be prioritized over reimbursement of LPTV/TV Translator and FM stations. As of September 30, 2021, the Commission made a total allocation of $2,074,204 for eligible full power and Class A broadcasters, MVPDs, LPTV/TV Translators and FM stations of which $2,073,205 has been obligated and $1,719,831 has been expended.

Accrued Liabilities are recorded in the TVBRF for exchange expenses which includes invoices received but not processed and for costs incurred but not invoiced. As of September 30, 2021, an accrued accounts payable of $87,086 was recorded for the full power and Class A broadcasters, MVPDs, LPTV/TV Translators and FM stations.

P. Secure & Trusted Communications Networks Reimbursement Program (S&T Networks)

On March 12, 2020, the Secure and Trusted Communications Networks Act of 2019 (Secure Networks Act) was signed into law. The Secure Networks Act, among other measures, directed the Commission to establish the Secure and Trusted Communications Networks Reimbursement Program (S&T Networks) to fund the removal, replacement, and disposal of covered communications equipment or services that pose an unacceptable risk to the national security of the United States or the security and safety of U.S. persons from the networks of providers of advanced communications service. On December 10, 2020, the Commission implemented the Secure Networks Act by establishing rules for the S&T Networks. The S&T Networks will provide funding allocations to eligible providers based on their estimated costs. S&T Networks recipients can then obtain funding disbursements from their allocation upon showing of actual expenses incurred. S&T Networks recipients will have one year from the initial disbursement to complete the permanent removal, replacement, and disposal of covered communications equipment or services with the potential for a general and individual extensions of time. Recipients of S&T Networks funds shall use these funds solely to: (1) permanently remove covered communications equipment and services from their networks; (2) replace the covered communications equipment and services with non-covered equipment or services; and (3) dispose of the covered communications equipment and services in accordance with the Secure Networks Act.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (Consolidated Appropriations Act), appropriated $1,900,000 to "carry out" the S&T Networks. In addition, the legislation amended the Secure Networks Act, expanding program eligibility from providers of advanced communications service with two million or fewer customers to providers with ten million or fewer customers. The Consolidated Appropriations Act also amended the definition of a provider of advanced communications service to specifically include certain non-commercial education institutions and added a method for prioritizing funding that differs from the approach adopted by the Commission in the *Second Report and Order*. The

Note 1 – Summary of Significant Accounting Policies (continued)

P. Secure & Trusted Communications Networks Reimbursement Program (S&T Networks) (continued)

Commission released a *Third Report and Order,* on July 14, 2021, implementing the changes required by the Consolidated Appropriations Act and making additional clarifications about the S&T Networks. Most notably, the Commission stated that the S&T Networks is limited to reimbursing the costs of removal, replacement, and disposal to communications equipment and service produced or provided by Huawei Technologies Company and ZTE Corporation that was obtain on or before June 30, 2020.

On April 28, 2021, the Commission's Wireline Competition Bureau (WCB) announced the selection of the S&T Networks Fund Administrator to assist with processing applications and administering the S&T Networks. On August 3, 2021, WCB released a public notice adopting final procedures for, and providing eligible providers of advanced communications services with additional guidance regarding, the application filing and reimbursement process for the S&T Networks. WCB also finalized the information fields on the new FCC Form 5640, which participants must submit to request funding allocations and disbursements from the S&T Networks Program, as well as the procedures governing the submission of and any modifications made to that form. On October 29, 2021, the FCC opened the S&T Networks filing window to begin accepting applications. As of September 30, 2021, $6,818 was obligated and $2,811 had been expended. Unobligated balances of $1,893,182 was carried forward.

Q. Connect America Fund

After completing the Connect America Fund Phase II reverse auction (CAF II Auction), the FCC committed to award a potential total of $1,488,330 over a 10-year period. As of September 30, 2021, the FCC has directed USAC to obligate a total of $1,476,785 for carriers who have successfully complied with the requirements to be eligible to receive support to provide fixed broadband and voice services to over 700,000 locations in 45 states. There are $3,999 bids in default as of September 30, 2021, leaving a balance of $7,546 to be obligated. In addition, the FCC committed to award a potential total of $170,400 to carriers that won the CAF II New York Auction over a 10-year period. As of September 30, 2021, FCC has directed USAC to obligate a total amount of $65,487, with remaining balance of $104,913 to be obligated.

Consistent with the Commission's direction in the Rural Digital Opportunity Fund Order, in July 2020 the FCC released a Public Notice establishing the process by which eligible price cap carriers could elect to receive an additional year of CAF II model-based support. The FCC committed to award a potential total of $1,497,972 from January 2021 through December 2021. As of September 30, 2021, the FCC has directed USAC to obligate a total of $1,497,972 for carriers who have successfully submitted election letters and complied with the requirement to continue providing broadband services to 3,656 locations in 45 states.

R. Rural Digital Opportunity Fund (RDOF)

Pursuant to a public notice, DA 201-1422, released by the Rural Broadband Auctions Task Force (RBATF), WCB, and the Office of Economics and Analytics (OEA) on December 7, 2020, there are 180 winning bidders in the Rural Digital Opportunity Fund Phase I auction (Auction 904), with the 10-year support amount totaling $9,230,688 and covering 5,221 locations in 49 states and one territory. The first wave of obligations totaling $136,374 were authorized on September 15, 2021 pursuant to public notice, DA 21-1158.

Note 1 – Summary of Significant Accounting Policies (continued)

S. Comparison and Other

Certain FY 2020 amounts have been reclassified to conform to the FY 2021 presentation. Specifically, the format of the Balance Sheet and the Statement of Changes in Net Position (SCNP). The Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the *Financial Report of the United States Government*. The SCNP has changed certain lines items and subtotals have been eliminated. The change does not affect totals for unexpended appropriations, cumulative results of operations or net position. The presentation of the fiscal year 2020 Balance Sheet and SCNP were modified to be consistent with the fiscal year 2021 presentation.

Note 2 – Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2021 and September 30, 2020:

	FY 2021	FY 2020
Intragovernmental:		
Fund Balance with Treasury	$ 84,938,731	$ 10,695,711
Accounts Receivable, Net	351	352
Total Intragovernmental	84,939,082	10,696,063
Accounts Receivable, Net	23,283	21,396
Total Non-entity Assets	84,962,365	10,717,459
Total Entity Assets	21,177,722	8,959,542
Total Assets	$ 106,140,087	$ 19,677,001

Non-entity Fund Balance with Treasury (FBWT) primarily represents auction deposits. Accounts receivable considered non-entity include regulatory fees, application fees, fines and forfeitures, spectrum auctions, and International Telecommunications Settlement (ITS) charges.

Note 3 – Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2021 and September 30, 2020:

	FY 2021	FY 2020
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 2,614,812	$ (8,600,781)
Unavailable	17,367	35,405
Obligated Balance not yet Disbursed	17,641,864	16,656,961
Non-Budgetary FBWT	84,938,731	10,695,711
Total	$ 105,212,774	$ 18,787,296

The FBWT includes general funds, revolving funds, special funds, and deposit funds.

General Funds – Includes the salaries and expense appropriation used to fund agency operations, COVID-19 Telehealth Program, Broadband DATA Act program, EBCF-EBBP, S&T Networks, ECF, the auction and reimbursable accounts, the credit reform program account, other no-year accounts used to carry over spectrum auction funds, offsetting collections, and the Office of Inspector General USF funds.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission's spectrum auction loan program.

Special Funds – Includes funds from TVBRF, USF and TRS fund. TVBRF is for relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV, TV Translator, and FM stations who were involuntarily reassigned to new channels or incurred reimbursable expenses as a result of the BIA, and for consumer education relating to the reorganization of broadcast television. Universal Service Funds are for the four USF programs and the CCPP. The USF programs are exempt from the application of the provisions of the Antideficiency Act by Congress through December 31, 2021 and are not subject to an apportionment by OMB. In FY 2020, the TRS funds were moved to a newly established account within the Treasury.

Deposit Funds – Includes monies being held for ITS, regulatory fees and spectrum auctions. Deposit funds are non-budgetary and are not available for use by the Commission unless they are properly identified or reclassified as Commission funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury General Fund or other Federal agencies.

Note 4 – Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2021 and September 30, 2020:

FY 2021	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 361	$ 2,017,259	$ 2,017,620
Allowance for Doubtful Accounts	-	(1,194,172)	(1,194,172)
Accounts Receivable, Net	$ 361	$ 823,087	$ 823,448

FY 2020	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 439	$ 1,643,561	$ 1,644,000
Allowance for Doubtful Accounts	-	(855,060)	(855,060)
Accounts Receivable, Net	$ 439	$ 788,501	$ 788,940

The following summarizes accounts receivable by type as of September 30, 2021 and September 30, 2020:

	FY 2021			FY 2020		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,088,153	$ (342,570)	$ 745,583	$ 1,023,679	$ (314,298)	$ 709,381
COMAD - Schools and Libraries	179,079	(174,271)	4,808	193,569	(187,826)	5,743
TRS	118,377	(73,677)	44,700	122,068	(71,095)	50,973
Regulatory Fees	27,509	(21,230)	6,279	34,457	(21,350)	13,107
Spectrum Auction	8,680	(8,680)	-	8,680	(8,680)	-
Civil Monetary Penalties	580,919	(566,556)	14,363	250,023	(244,980)	5,043
Other	14,903	(7,188)	7,715	11,524	(6,831)	4,693
Total	$ 2,017,620	$ (1,194,172)	$ 823,448	$ 1,644,000	$ (855,060)	$ 788,940

The Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed, or a final determination has been issued. The COMAD receivables for Schools and Libraries recorded an allowance rate of 97% in FY 2021 and FY 2020.

The TRS accounts receivable includes $9,046 of gross receivables pertaining to criminal restitution for the TRS. The TRS estimated the net realizable value of criminal restitution receivable to be zero and recorded an allowance for the full amount of the receivable.

The Commission expects to collect 100% of intragovernmental receivables and no allowance is recorded.

Note 5 – General Property, Plant and Equipment, Net

The following table summarizes total PP&E and accumulated depreciation for Year Ended September 30, 2021 and September 30, 2020.

	FY 2021 Net PP&E	FY 2020 Net PP&E
Balance beginning of year	$ 79,878	$ 72,138
Capitalized acquisitions	24,031	28,894
Depreciation expense	(19,707)	(21,154)
Balance at end of year	$ 84,202	$ 79,878

Note 6 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2021 and September 30, 2020:

	FY 2021	FY 2020
Intragovernmental:		
FECA Liability	$ 435	$ 486
Unemployment Liability	2	-
Total Intragovernmental	437	486
Unfunded Leave	24,547	23,555
Actuarial FECA Liability	1,953	3,019
Other:		
Energy Savings Performance Contract	6,610	7,027
Accrued Liabilities for USF and TRS	490,897	483,329
Total liabilities not covered by budgetary resources	524,444	517,416
Total liabilities covered by budgetary resources	934,309	1,002,910
Total liabilities not requiring budgetary resources	84,956,087	10,704,354
Total Liabilities	$ 86,414,840	$ 12,224,680

Liabilities not covered by budgetary resources are liabilities incurred that are not covered by realized budgetary resources as of the Consolidated Balance Sheet date.

Liabilities not requiring budgetary resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources.

Note 7 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2021 and September 30, 2020:

FY 2021	Non-Current	Current	Total
Intragovernmental			
Liability to the General Fund and Other Non-Entity Assets	$ -	$ 84,234,840	$ 84,234,840
Other	-	3,868	3,868
Total Intragovernmental	-	84,238,708	84,238,708
With the Public			
Prepaid Contributions	-	44,563	44,563
Accrued Liabilities for USF and TRS	-	490,897	490,897
Deposit/ Unapplied Liability	-	606,917	606,917
Other	6,325	17,037	23,362
Total With the Public	6,325	1,159,414	1,165,739
Total Other Liabilities	$ 6,325	$ 85,398,122	$ 85,404,447

FY 2020	Non-Current	Current	Total
Intragovernmental			
Liability to the General Fund and Other Non-Entity Assets	$ -	$ 7,738,740	$ 7,738,740
Other	-	3,553	3,553
Total Intragovernmental	-	7,742,293	7,742,293
With the Public			
Prepaid Contributions	-	108,399	108,399
Accrued Liabilities for USF and TRS	-	483,329	483,329
Other	6,570	21,409	27,979
Total With the Public	6,570	613,137	619,707
Total Other Liabilities	$ 6,570	$ 8,355,430	$ 8,362,000

The Liability to the General Fund and Other Non-Entity Assets includes both cash collected, and net accounts receivable being held for transfer to the Treasury General Fund or other Federal agencies. The Commission collects the following types of custodial revenue: fines and forfeitures revenue, penalty revenue on regulatory fees and spectrum auctions program revenue.

Prepaid Contributions include USF and TRS contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for USF and TRS primarily represent anticipated future payments for the Lifeline program, and certain support mechanisms within the High Cost program and Telecommunications Relay Service. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, Energy Saving Performance Contract, and funds received that are being held until proper application is determined.

Note 8 – Commitments and Contingencies

The Commission is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of universal service funds from its programs which might result in future proceedings or actions. Similarly, the Commission, TRS fund administrator, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

In addition, there are certain operating leases and contracts that may contain provisions regarding contract termination costs upon early contract termination. In the management's opinion, early contract termination will not materially affect the Commission's consolidated financial statements.

As of September 30, 2021, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

Note 9 – Funds from Dedicated Collections

The telecommunications companies in the U.S. are obligated to make contributions to the USF and the TRS Fund. The Commission currently recognizes the contributions collected under the USF and TRS as Non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

As previously discussed, the Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs who are involuntarily reassigned to new channels as a result of the BIA. In FY 2018, Congress appropriated additional funding and also expanded the universe of entities eligible for reimbursement. These reimbursement costs are accounted for in the U.S. Budget as the "TV Broadcaster Relocation Fund," which is funded by forward auction proceeds and direct appropriations. The Commission recognized the reimbursement costs for the TVBRF as program expenses on the Statement of Net Cost.

The Commission had no activity related to Gifts and Bequests in FY 2021 and FY 2020.

The following pages summarize the significant assets, liabilities, and costs incurred related to the TVBRF, USF and TRS as of September 30, 2021 and September 30, 2020. The information below is shown on a combined and consolidated bases. The Commission had no eliminations between dedicated collection funds. Therefore, the combined and consolidated are the same.

Note 9 – Funds from Dedicated Collections (continued)

FY 2021	TVBRF	USF	TRS	Total Funds from Dedicated Collections (Combined/ Consolidated)
Balance Sheet as of September 30, 2021				
Intragovernmental				
Fund Balance with Treasury	$ 1,098,862	$ 6,404,781	$ 495,349	$ 7,998,992
Total intragovernmental assets	1,098,862	6,404,781	495,349	7,998,992
Other than intragovernmental				
Accounts receivable, net	3,324	750,391	44,733	798,448
General property, plant, and equipment, net	-	11,345	233	11,578
Advances and prepayments	-	18,024	-	18,024
Total other than intragovernmental	3,324	779,760	44,966	828,050
Total assets	$ 1,102,186	$ 7,184,541	$ 540,315	$ 8,827,042
Other than intragovernmental				
Accounts payable	$ 90,124	$ 419,487	$ 5,502	$ 515,113
Deferred revenue	-	-	8,977	8,977
Prepaid contributions	-	42,899	1,664	44,563
Accrued liabilities	-	282,277	208,620	490,897
Total liabilities	$ 90,124	$ 744,663	$ 224,763	$ 1,059,550
Unexpended appropriations	$ 819,020	$ -	$ -	$ 819,020
Cumulative results of operations	193,042	6,439,878	315,552	6,948,472
Total liabilities and net position	$ 1,102,186	$ 7,184,541	$ 540,315	$ 8,827,042
Statement of Net Cost for the Year Ended September 30, 2021				
Net cost of operations	$ (23,809)	$ 8,795,041	$ 1,420,828	$ 10,192,060
Statement of Changes in Net Position for the Year Ended September 30, 2021				
Unexpended Appropriations:				
Beginning balances	$ 819,020	$ -	$ -	$ 819,020
Total unexpended appropriations	819,020	-	-	819,020
Cumulative results of operations:				
Beginning balances	130,405	5,942,105	179,271	6,251,781
Appropriations used	38,828	-	-	38,828
Other than intragovernmental non-exchange revenue	-	9,292,814	1,557,109	10,849,923
Net cost of operations	(23,809)	8,795,041	1,420,828	10,192,060
Net Change in Cumulative Results of Operations	62,637	497,773	136,281	696,691
Cumulative Results of Operations: Ending	193,042	6,439,878	315,552	6,948,472
Net Position, end of period	$ 1,012,062	$ 6,439,878	$ 315,552	$ 7,767,492

Note 9 – Funds from Dedicated Collections (continued)

FY 2020	TVBRF	USF	TRS	Total Funds from Dedicated Collections (Combined/ Consolidated)
Balance Sheet as of September 30, 2020				
Intragovernmental				
Fund Balance with Treasury	$ 1,407,813	$ 5,911,691	$ 377,572	$ 7,697,076
Total intragovernmental assets	1,407,813	5,911,691	377,572	7,697,076
Other than intragovernmental				
Accounts receivable, net	572	715,124	51,020	766,716
General property, plant, and equipment, net	-	16,441	-	16,441
Advances and prepayments	-	18,024	-	18,024
Total other than intragovernmental	572	749,589	51,020	801,181
Total assets	$ 1,408,385	$ 6,661,280	$ 428,592	$ 8,498,257
Other than intragovernmental				
Accounts payable	$ 420,132	$ 361,758	$ 6,111	$ 788,001
Deferred revenue	-	-	8,899	8,899
Prepaid contributions	-	105,435	2,964	108,399
Accrued liabilities	-	251,982	231,347	483,329
Total liabilities	$ 420,132	$ 719,175	$ 249,321	$ 1,388,628
Unexpended appropriations	$ 857,848	$ -	$ -	$ 857,848
Cumulative results of operations	130,405	5,942,105	179,271	6,251,781
Total liabilities and net position	$ 1,408,385	$ 6,661,280	$ 428,592	$ 8,498,257
Statement of Net Cost for the Year Ended September 30, 2020				
Net cost of operations	$ 641,434	$ 8,231,849	$ 1,430,314	$ 10,303,597
Statement of Changes in Net Position for the Year Ended September 30, 2020				
Unexpended Appropriations:				
Beginning balances	$ 857,848	$ -	$ -	$ 857,848
Total unexpended appropriations	857,848	-	-	857,848
Cumulative results of operations:				
Beginning balances	646,735	6,358,074	153,804	7,158,613
Appropriations used	125,104	-	-	125,104
Other than intragovernmental non-exchange revenue	-	7,815,880	1,455,781	9,271,661
Net cost of operations	641,434	8,231,849	1,430,314	10,303,597
Net Change in Cumulative Results of Operations	(516,330)	(415,969)	25,467	(906,832)
Cumulative Results of Operations: Ending	130,405	5,942,105	179,271	6,251,781
Net Position, end of period	$ 988,253	$ 5,942,105	$ 179,271	$ 7,109,629

Note 9 – Funds from Dedicated Collections (continued)

The FY 2021 and FY 2020 funds from dedicated collections are presented on a combined basis. The tables below summarize the elimination of activities between dedicated collections and all other fund types to arrive at the consolidated assets and liabilities as presented on the balance sheet.

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2021					
Assets with the public					
Accounts Receivable, Net	$ 798,448	$ 24,672	$ 823,120	$ (33)	$ 823,087
Liabilities with the public					
Other	$ -	$ 23,395	$ 23,395	$ (33)	$ 23,362

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2020					
Assets with the public					
Accounts Receivable, Net	$ 766,716	$ 21,834	$ 788,550	$ (49)	$ 788,501
Liabilities with the public					
Other	$ -	$ 28,028	$ 28,028	$ (49)	$ 27,979

Note 10 – Inter-Entity Costs

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Commission are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 11 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $16,812,274 as of September 30, 2021 and $15,823,352 as of September 30, 2020. The following summarizes Undelivered Orders as of September 30, 2021 and September 30, 2020:

FY 2021	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 5,627	$ 16,786,984	$ 16,792,611
Undelivered Orders-Paid	1,639	18,024	19,663
Total	$ 7,266	$ 16,805,008	$ 16,812,274

Note 11 – Undelivered Orders at the End of the Period (continued)

FY 2020	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 17,969	$ 15,784,496	$ 15,802,465
Undelivered Orders-Paid	2,863	18,024	20,887
Total	$ 20,832	$ 15,802,520	$ 15,823,352

Note 12 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs and TRS, subsidy costs incurred under credit reform programs, and the development and implementation costs related to the competitive auction program.

Pursuant to 47 U.S.C. § 254 and § 225, the FCC has a permanent indefinite appropriation to fund its universal service programs including the TRS Fund. These programs operate by collecting mandatory contributions from telecommunications carriers providing interstate telecommunications services, and from other providers of interstate telecommunications required to contribute if the public interest so requires.

Credit reform is mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but instead are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Pursuant to 47 U.S.C. § 309(j)(8)(B), the FCC can retain proceeds from spectrum auctions for amounts that may be necessary for the costs of developing and implementing the competitive auction program. These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C. § 309(j)(8)(B), for FY 2021 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $134,495.

Note 13 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $374,000 in FY 2021 and $339,000 in FY 2020 are precluded from obligation. In addition, the RAY BAUM'S Act requires the Commission to transfer all excess regulatory fees collected from prior and subsequent fiscal years to the Treasury General Fund for the sole purpose of deficit reduction.

Note 14 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2020 and the amounts presented in the FY 2022 Budget of the United States Government. The FY 2023 Budget of the United States Government, which will include actual numbers for FY 2021, has not been published at this time. Pursuant to 31 USC § 1105, the Budget of the United States Government will be released not later than the first Monday in February and will be available at the following website: https://www.whitehouse.gov/omb/budget/.

Note 15 – Custodial Revenues

In accordance with the provisions of SFFAS 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues, on a modified cash basis of accounting, and do not affect the Commission's net cost or net position. Custodial collections consists of miscellaneous receipts, and fines and forfeitures to be deposited in the Treasury General Fund. Fines and Forfeitures are made up of consent decrees and forfeiture orders. Forfeiture orders are probable, measurable, and legally enforceable claims, but need to result in a judgement issued by a Federal court before they become legally collectible debts. Consent decrees are legally collectible debts. Additionally, the Commission reports exchange revenue associated with radio spectrum auction proceeds on the Statement of Custodial Activity. For more information, refer to Note 1 L. The custodial non-exchange collections for the year ended September 30, 2021 were $207,301 and $63,343 for the year ended September 30, 2020. There were no material refunds issued for the year ended September 30, 2021 and September 30, 2020.

Note 16 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The following analysis illustrates this reconciliation by listing the Commission's key differences between net cost and net outlays for the reporting period as of September 30, 2021 and September 30, 2020.

Note 16 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2021	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 111,701	$ 11,031,152	$ 11,142,853
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(19,707)	(19,707)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable, net	(78)	(18,565)	(18,643)
Other assets	(1,224)	-	(1,224)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	8,606	(875)	7,731
Federal employee and veteran benefits/benefits due payable	-	(85)	(85)
Other liabilities	203	(10,018)	(9,815)
Financing sources:			
Imputed cost	(13,240)	-	(13,240)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (5,733)	$ (49,250)	$ (54,983)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	24,031	24,031
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ -	$ 24,031	$ 24,031
Other Reconciling Items:			
Custodial/non-exchange revenue	(4,123)	12,549	8,426
Other temporary timing differences	-	(2,492)	(2,492)
Total Other Reconciling Items	$ (4,123)	$ 10,057	$ 5,934
NET OUTLAYS (Calculated Total)	$ 101,845	$ 11,015,990	$ 11,117,835
Budgetary Agency Outlays, net (SBR 4210)			
Outlays, net (total) (discretionary and mandatory)			11,152,514
Distributed offsetting receipts (-)			(34,679)
Budgetary Agency Outlays, net			$ 11,117,835

Note 16 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2020	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 122,024	$ 10,245,008	$ 10,367,032
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(21,154)	(21,154)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	98	18,465	18,563
Investments	-	(675)	(675)
Other assets	1,622	5,000	6,622
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	(9,712)	(130,520)	(140,232)
Salaries and benefits	(402)	(1,386)	(1,788)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	62	2,361	2,423
Other financing sources:			
Federal employee retirement benefit costs paid by OPM & imputed to agency	(11,670)	-	(11,670)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (20,002)	$ (127,909)	$ (147,911)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	28,894	28,894
Other	-	(5,876)	(5,876)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ -	$ 23,018	$ 23,018
NET OUTLAYS (Calculated Total)	$ 102,022	$ 10,140,117	$ 10,242,139
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total) (discretionary and mandatory)			10,271,908
Distributed offsetting receipts (-)			(29,769)
Agency outlays, net (discretionary and mandatory)			$ 10,242,139

Note 17 – Disclosure Entities

Universal Service Administrative Company (USAC) – The Commission is responsible for the overall management and oversight of the USF, including all USF policy decisions. USAC was established in 1997 as a not-for-profit subsidiary of the National Exchange Carrier Association, Inc. (NECA), and in that same year, the FCC appointed USAC as the permanent administrator, under the Commission's direction, of the four USF programs and the CCPP. The four USF programs are High Cost, Lifeline, Rural Health Care, and School and Libraries. USAC, as the administrator of the USF, is responsible for the effective administration of the USF programs, including billing, collection, and disbursement.

National Exchange Carrier Association, Inc. (NECA) – NECA was established as a non-stock Delaware corporation, which, pursuant to FCC rules, files interstate access tariffs and administers interstate access

Note 17 – Disclosure Entities (continued)

revenue pools for local telephone companies throughout the United States including its territories. NECA performs data collection functions for the High Cost program and bills USAC for the associated costs.

NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. NECA has no management control over USAC and derives no economic benefits from this subsidiary relationship. NECA does not consolidate with USAC's financial statements since it does not meet the criteria for consolidation in accordance with the accounting standards for consolidation of all majority-owned subsidiaries. The investment in USAC, which is carried at cost, is insignificant to these financial statements.

Local Number Portability Administrator (LNPA) Program – The LNPA program facilitates portability of U.S. geographic telephone numbers between telephony service providers. The LNPA program provides and operates the Number Portability Administration Center (NPAC) system that provides local number portability for the United States, performing the service of porting telephone numbers between service providers. The LNPA program is funded by fees the LNPA charges telecommunications service providers for its service, pursuant to FCC rules.

The FCC exercises oversight of the LNPA procurement process and regulates local number portability. The FCC has authorized the telephony service provider industry consortium, North American Portability Management, LLC (NAPM), to procure the LNPA and oversee the LNPA's performance and operation of the LNPA program. Currently iconectiv, LLC is the LNPA under a contract with NAPM; iconectiv, LLC is a subsidiary, subject to a voting trust, of Telefonaktiebolaget LM Ericsson (d/b/a Ericsson), a publicly traded Swedish multinational networking and telecommunications company.

In accordance with SFFAS 47, *Reporting Entity,* the Commission has excluded the North American Numbering Plan Administrator (NANPA) Program and the North American Portability Management, LLC (NAPM) because they are immaterial disclosure entities. None of these entities substantially meet the requirements for consolidated entities. As of September 30, 2021, the likelihood is considered remote of any potential financial and non-financial risks or benefits for the Commission associated with the control of or involvement with USAC, NECA, or LNPA program. USAC and NECA are all not-for-profit corporations and LNPA is a program pursuant to FCC rules. USAC's annual reports are available at https://www.usac.org, while NECA's annual reports are available at https://www.neca.org. LNPA program's annual reports are submitted to North American Portability Management LLC, which provides them to the FCC.

The following summarizes the balances from transactions with Disclosure Entities as of September 30, 2021 and September 30, 2020.

Note 17 – Disclosure Entities (continued)

FY 2021	USAC	NECA	Total
Balance Sheet			
Advances and prepayments (Note 1 G)	$ 18,024	$ -	$ 18,024
Accounts payable[1]	12,813	-	12,813
Statement of Net Cost			
Net cost of operations[2]	$ 196,364	$ 321	$ 196,685
Statement of Changes in Net Position			
Net cost of operations[2]	$ 196,364	$ 321	$ 196,685

FY 2020	USAC	NECA	Total
Balance Sheet			
Advance and prepayments (Note 1 G)	$ 18,024	$ -	$ 18,024
Accounts payable[1]	7,270	27	7,297
Statement of Net Cost			
Net cost of operations[2]	$ 187,458	$ 482	$ 187,940
Statement of Changes in Net Position			
Net cost of operations[2]	$ 187,458	$ 482	$ 187,940

Note 18 – COVID-19 Activity

COVID-19 Telehealth Program – Due to the ongoing novel COVID-19 pandemic, the Commission established the COVID-19 Telehealth Program through a Report and Order released on April 2, 2020. The Commission began accepting applications on April 13, 2020 and stopped accepting applications on June 25, 2020. The COVID-19 Telehealth Program (Round 1) is funded through a $200,000 Congressional appropriation as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to immediately support eligible health care providers responding to the pandemic by providing funding for telecommunications services, information services, and connected devices necessary to provide critical connected care services whether for treatment of the COVID-19 disease or other health conditions during the COVID-19 pandemic. The COVID-19 Telehealth Program is a financial assistance program, not a grant program, that is designed to provide flexibility for eligible health care providers that apply for and receive funding commitments, and then request reimbursement for eligible expenses that they have purchased and received from their service providers or vendors under the COVID-19 Telehealth Program (Round 1). As of September 30, 2021, the amount obligated for Round 1, net of de-obligations, was $194,097 and had expended $185,666 of budgetary resources. The de-obligated fund balance of $5,903 was carried forward.

[1] This portion in the accounts payable consists of the USF administrative fees due to USAC and NECA.

[2] This portion of the operation expenses includes the administrative fees incurred in USF. The Commission approves the administrative costs to cover expenses such as: the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities.

Note 18 – COVID-19 Activity (continued)

As of September 30, 2020, the amount obligated for Round 1 was $200,000 and had expended $52,078 of budgetary resources and no unobligated balances were carried forward.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law, which appropriated an additional $249,950 to the Commission's COVID-19 Telehealth Program (Round 2) of which $50 was for the Office of Inspector General (OIG). This additional funding will allow the Commission to continue its efforts to expand telehealth and connected care throughout the country and enable patients to access necessary health care services while helping slow the spread of the disease. Per congressional directive, the Commission was required to seek comment on various ideas related to committing the new funding, including the criteria to use to evaluate applications and how to treat pending applications from Round 1. The Commission released a Public Notice seeking comment on these issues on January 6, 2021. On February 2, 2021, the Commission adopted a Report and Order finding that it was in the public interest to use the USAC to administer the COVID-19 Telehealth Program going forward. On March 30, 2021, the Commission released a Report and Order and Order on Reconsideration setting forth additional details about the policies and procedures that would apply during Round 2. On April 15, 2021, the Bureau released a Public Notice announcing the duration of the Round 2 application filing window, which opened on April 29, 2021 and closed on May 6, 2021. On August 26, 2021, WCB released a Public Notice announcing the first group of funding awardees, as well as a separate Public Notice to provide additional guidance on the invoicing process for Round 2. As of September 30, 2021, the Commission obligated $89,694 of the Round 2 funding and expended $1,125 of budgetary resources. Unobligated balances of $160,256 was carried forward. Also, see Note 1 H and L, and Note 3.

Emergency Broadband Connectivity Fund, Emergency Broadband Benefit Program (EBCF-EBBP) – The Consolidated Appropriations Act, 2021 created and appropriated $3,200,000 for the Emergency Broadband Connectivity Fund and directed the Commission to establish the Emergency Broadband Benefit Program, under which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices during an emergency period relating to the COVID-19 pandemic. In implementing the EBCF-EBBP, the Consolidated Appropriations Act permits the Commission to apply rules contained in part 54 of the Commission's rules, including those governing the Lifeline program, and further permits the Commission to avail itself of USAC's services to administer the EBCF-EBBP.

Consistent with the Consolidated Appropriations Act, the Commission adopted rules and policies in a Report and Order on February 25, 2021 to govern the EBCF-EBBP. The WCB, other Commission staff, and USAC have established processes and systems needed to administer the EBCF-EBBP, including approval and election processes for broadband providers to participate, consumer application and enrollment processes, and provider reimbursement. On March 4, 2021, the WCB announced the initial deadlines for approving the broadband provider participation and election process and will announce at a later date other administrative deadlines or milestones. On May 12, 2021, the EBCF-EBBP launched the National Verifier at GetEmergencyBroadband.org for enrolling consumers and submitting applications. As of September 30, 2021, the FCC obligated $907,557 of the EBCF-EBBP and expended $867,264 of budgetary resources. Unobligated balances of $2,292,443 was carried forward.

Emergency Connectivity Fund (ECF) – To help schools and libraries provide connected devices, such as a laptop, tablet, or similar end-user devices, and connectivity to students, school staff, and library patrons during the COVID-19 pandemic, Congress established a $7,172,000 ECF (of which $1,000 was for OIG), to remain available until September 30, 2030 as part of the American Rescue Plan Act of 2021 (American Rescue Plan Act) signed into law on March 11, 2021. Pursuant to congressional directive, on March 16, 2021, the WCB sought comment on the provision of support from the ECF consistent with section 7402 of the American Rescue Plan Act. Subsequently, on May 11, 2021, the Commission released a Report and

Note 18 – COVID-19 Activity (continued)

Order establishing rules and policies governing the ECF Program. The Report and Order designates the USAC as the program administrator with Commission oversight, and leverages the processes and structures used in the E-Rate Program for the benefit of schools and libraries already familiar with the E-Rate Program. It also adopts procedures to protect the limited funding from waste, fraud, and abuse.

Specifically, the ECF Program will enable eligible schools and libraries to seek funding for purchases during the upcoming school year (2021-2022) of laptops and tablet computers, Wi-Fi hotspots, other eligible equipment, and broadband connectivity for students, school staff, and library patrons who would otherwise lack access to connected devices and broadband service sufficient for remote learning. The initial ECF Program application filing window opened on June 29, 2021 and closed on August 13, 2021. During this application filing window, eligible schools and libraries could submit requests for funding to purchase eligible equipment and services between July 1, 2021 and June 30, 2022. As of September 30, 2021, the FCC obligated $1,311,091 and expended $4,212. Unobligated balances of $5,860,909 was carried forward.

The charts below summarize the cumulative amounts received and used under each program as of September 30, 2021 and September 30, 2020:

FY 2021	Appropriations Received	Obligations Incurred	Remaining Available for Obligation	Appropriations Used
COVID-19 Telehealth (Round 1)	$ 200,000	$ 194,097	$ 5,903	$ 185,666
COVID-19 Telehealth (Round 2)	249,950	89,694	160,256	1,125
EBCF-EBBP	3,200,000	907,557	2,292,443	867,264
ECF	7,172,000	1,311,091	5,860,909	4,212
Total	$ 10,821,950	$ 2,502,439	$ 8,319,511	$ 1,058,267

FY 2020	Appropriations Received	Obligations Incurred	Remaining Available for Obligation	Appropriations Used
COVID-19 Telehealth (Round 1)	$ 200,000	$ 200,000	$ -	$ 52,078
Total	$ 200,000	$ 200,000	$ -	$ 52,078

Note 19 – Subsequent Events

As of this report issuance, the President has signed the Infrastructure Investment and Jobs Act (H.R. 3684) available at https://www.congress.gov/bill/117th-congress/house-bill/3684/text. The Infrastructure Investment and Jobs (IIJ) Act directs the Commission to adopt final rules modifying and extending the EBCF-EBBP to a longer-term broadband affordability program to be called the Affordable Connectivity Program (ACP). The ACP, as described in the IIJ Act, features changes to the eligibility criteria, an adjusted subsidy rate, a new mechanism for providing an enhanced subsidy amount to households in high-cost areas, a transition period for existing EBBP households, and additional consumer protection provisions. The IIJ Act appropriates $14.2 billion to the Affordable Connectivity Fund for the support of the ACP.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the *Financial Report of the U.S. Government (Financial Report)*, Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the *Financial Report* statements. This note shows the Commission's financial statements and the Commission's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated *Financial Report* line items. A copy of the 2020 *Financial Report* can be found here: Bureau of the Fiscal Service - Reports, Statements & Publications (treasury.gov) and a copy of the 2021 *Financial Report* will be posted to this site upon release. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2021 and September 30, 2020

AFR Line	2021 FCC SONC	Dedicated Collections Combined	All Other Amounts (with Eliminations)	2021 Reclassified SONC Total	Reclassified Line
Gross Costs	$ 11,679,218	$ 10,192,060	$ 1,374,634	$ 11,566,694	Non-Federal Gross Cost
	-	-	49,402	49,402	Benefit Program Costs
	-	-	13,241	13,241	Imputed Costs
	-	-	35,556	35,556	Buy/Sell Costs
	-	-	14,325	14,325	Other Expenses (w/o Reciprocals)
	-	-	***112,524***	***112,524***	***Total Intragovernmental Costs***
Total Gross Costs	***$ 11,679,218***	***$ 10,192,060***	***$ 1,487,158***	***$ 11,679,218***	***Total Reclassified Gross Costs***
Earned Revenue[3]	(536,365)	-	(401,048)	(401,048)	Non-Federal Earned Revenue
					Intragovernmental Revenue
	-	-	(820)	(820)	Buy/Sell Revenue
	-	-	(2)	(2)	Borrowing and Other Interest Revenue
	-	-	***(822)***	***(822)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	***(536,365)***	-	***(401,870)***	***(401,870)***	***Total Reclassified Earned Revenue***
Gain/Loss-Pension/ORB/OPEB Assumptions					Gain/Loss on Changes in Actuarial
Net Cost of Operations	**$ 11,142,853**	**$ 10,192,060**	**$ 1,085,288**	**$ 11,277,348**	**Net Cost of Operations**
Exchange Statement of Custodial Activity					
Refunds and Other Payments					Buy/Sell Revenue (Intradepartmental
Auctions Salaries & Expenses	-	-	**(134,495)**	(134,495)	Eliminations for Auctions Salaries & Expenses)[3]
Net Cost of Operations	**$ 11,142,853**	**$ 10,192,060**	**$ 950,793**	**$ 11,142,853**	**Net Cost of Operations**

[3] Pursuant to 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function. Collections used to offset the cost of performing auction-related activity were appropriated at $134,495 in FY 2021 and $132,539 for FY 2020. At the agency level these amounts are recognized on the Consolidated Statement of Custodial Activity in the "Refunds and Other Payments" sections on the line "Auctions Salaries & Expenses (FCC)" and the "Less: earned revenues not attributed to programs" on the Consolidated Statement of Net Cost. At the Government-wide level these amounts are eliminated on the Reclassified Statement of Net Cost.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

AFR Line	2020 FCC SONC	Dedicated Collections Combined	All Other Amounts (with Eliminations)	2020 Reclassified SONC Total	Reclassified Line
Gross Costs	$ 10,873,465	$ 10,303,597	$ 3,530,720	$ 13,834,317	Non-Federal Gross Cost
					Intragovernmental Costs
	-	-	45,195	45,195	Benefit Program Costs
	-	-	11,670	11,670	Imputed Costs
	-	-	52,771	52,771	Buy/Sell Costs
	-	-	9,515	9,515	Purchase of Assets
	-	-	13,686	13,686	Other Expenses (w/o Reciprocals)
	-	-	(9,515)	(9,515)	Purchase of Assets Offset
	-	-	***123,322***	***123,322***	***Total Intragovernmental Costs***
Total Gross Costs	***$ 10,873,465***	***$ 10,303,597***	***$ 3,654,042***	***$ 13,957,639***	***Total Reclassified Gross Costs***
Earned Revenue[3]	(506,433)		(372,598)	(372,598)	Non-Federal Earned Revenue
					Intragovernmental Revenue
	-	-	(1,295)	(1,295)	Buy/Sell Revenue
	-	-	(2)	(2)	Borrowing and Other Interest Revenue
	-	-	***(1,297)***	***(1,297)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	***(506,433)***	-	***(373,895)***	***(373,895)***	***Total Reclassified Earned Revenue***
Net Cost of Operations	**$ 10,367,032**	**$ 10,303,597**	**$ 3,280,147**	**$ 13,583,744**	**Net Cost of Operations**
Exchange Statement of Custodial Activity					
Refunds and Other Payments					Buy/Sell Revenue (Intradepartmental
Auctions Salaries & Expenses	-	-	**(132,539)**	(132,539)	Eliminations for Auctions Salaries & Expenses)[3]
	-	-	**(3,084,173)**	(3,084,173)	Reverse Incentive Auction winning bidders[4]
Net Cost of Operations	**$ 10,367,032**	**$ 10,303,597**	**$ 63,435**	**$ 10,367,032**	**Net Cost of Operations**

[4] This is the valid difference due to Payments related to the FCC's custodial activities reported differently at the agency level than the Government-wide level. At the agency level, standard general ledger (SGL) 679000 Other Expenses Not Requiring Budgetary Resources, custodial is not cross walked to the Statement of Net Cost. At the Government-wide level, SGL 679000 Other Expenses Not Requiring Budgetary Resources, custodial and non-custodial are cross walked to the Reclassified Statement of Net Cost.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2021 and September 30, 2020

AFR Line	2021 FCC SCNP	Dedicated Collections Combined	All Other Amounts (with Eliminations)	2021 Reclassified SCNP Total	Reclassified Line
UNEXPENDED APPRORPATIONS					
Unexpended Appropriations, Beginning Balance	$ 1,008,586	$ 7,109,629	$ 342,692	$ 7,452,321	Net Position, Beginning of Period
Appropriations Received, General Funds	12,586,950	-	12,586,950	12,586,950	Appropriations Received as Adjusted
Appropriations Used	(1,047,827)	(38,828)	(1,008,999)	(1,047,827)	Appropriations Used
Total Unexpended Appropriations	**$12,547,709**	**$ 7,070,801**	**$ 11,920,643**	**$18,991,444**	
CUMULATIVE RESULTS OF OPERATIONS					
Cumulative Results, Beginning Balance	$ 6,443,735				
Appropriations Used	1,047,827	38,828	1,008,999	1,047,827	Appropriations Expended
Non-Exchange Revenue	10,849,973				*Non-Federal Non-Exchange Revenue*
SCA: Sources of Cash Collections: Fines and	207,301	10,849,923	212,165	11,062,088	Other Taxes and Receipts
SCA: Sources of Cash Collections: Spectrum	85,564,050	-	85,564,050	85,564,050	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	8,718	-	-	-	
		10,849,923	85,776,215	96,626,138	*Total Non-Federal Non-Exchange Revenues*
					Intragovernmental Non-Exchange Revenue
		-	(8,942,172)	(8,942,172)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
		-	3,904	3,904	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)
		-	(8,938,268)	(8,938,268)	*Total Intragovernmental Non-Exchange Revenue*
Total Non-Exchange Revenues	96,630,042	10,849,923	76,837,947	87,687,870	*Total Reclassified Non-Exchange Revenue*
Imputed Financing	13,240	-	13,240	13,240	Imputed Financing Sources (Federal)
Other	(34,384)				
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be	(76,496,101)		(76,496,101)	(76,496,101)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
SCA: Disposition of Collections: Transferred to Others: U.S. Treasury	(207,301)	-	(241,686)	(241,686)	Non-Entity Collections Transferred to the General Fund
Spectrum Relocation Fund (OMB)	(4,466,079)				
Public Safety Trust Fund (NTIA)	(4,476,093)				
		-	(76,724,547)	(76,724,547)	*Total Intragovernmental Other*
Total Other	(85,666,718)	-	(76,724,547)	(76,724,547)	*Total Reclassified Other*
SCA: Disposition of Collections: Refunds and Other Payments Auctions, Salaries & Expenses (FCC)[3]	(134,495)				
Net Cost of Operations	11,142,853	10,192,060	1,085,287	11,277,347	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	7,177,538	-	-	-	
Total Net Position	$ 19,725,247	$ 7,767,492	$ 11,957,755	$ 19,725,247	**Net Position - Ending Balance**

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

AFR Line	2020 FCC SCNP	Dedicated Collections Combined	All Other Amounts (with Eliminations)	2020 Reclassified SCNP Total	Reclassified Line
UNEXPENDED APPRORPATIONS					
Unexpended Appropriations, Beginning Balance	$ 985,768	$ 8,141,565	$ 225,714	$ 8,367,279	Net Position, Beginning of Period
Appropriations Received, General Funds	200,000	-	200,000	200,000	Appropriations Received as Adjusted
Appropriations Used	(177,182)	(125,104)	(52,078)	(177,182)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 1,008,586**	**$ 8,016,461**	**$ 373,636**	**$ 8,390,097**	
CUMULATIVE RESULTS OF OPERATIONS					
Cumulative Results, Beginning Balance	$ 7,381,511				
Appropriations Used	177,182	125,104	52,078	177,182	Appropriations Expended
Non-Exchange Revenue					*Non-Federal Non-Exchange Revenues*
Non-Exchange Revenue	9,274,981				Non-Federal Non-Exchange Revenue
SCA: Sources of Cash Collections: Fines and	63,343	9,271,661	66,152	9,337,813	Other Taxes and Receipts
SCA: Sources of Cash Collections: Spectrum	10,291,811	-	10,291,811	10,291,811	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	4,504	-	-	-	
		9,271,661	10,357,963	19,629,624	*Total Non-Federal Non-Exchange Revenues*
					Intragovernmental Non-Exchange Revenue
		-	688	688	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange
SCA: Disposition of Collections: Transferred to Others: Public Safety Trust Fund (NTIA)		-	4,327	4,327	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
		-	5,015	5,015	*Total Intragovernmental Non-Exchange Revenue*
Total Non-Exchange Revenues	19,634,639	9,271,661	10,362,978	19,634,639	*Total Reclassified Non-Exchange Revenue*
Imputed Financing	11,670	-	11,670	11,670	Imputed Financing Sources (Federal)
Other	(34,577)				
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be	(4,356,742)	-	(4,356,742)	(4,356,742)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
SCA: Disposition of Collections: Transferred to Others: U.S. Treasury	(2,786,204)	-	(2,820,781)	(2,820,781)	Non-Entity Custodial Collections Transferred to the General Fund
		-	(7,165,853)	(7,165,853)	*Total Intragovernmental Other*
Total Other	(7,165,853)	-	(7,165,853)	(7,165,853)	*Total Reclassified Other*
SCA: Reverse Incentive Auction winning bidders[4]	(3,084,173)				
SCA: Disposition of Collections: Refunds and Other Payments Auctions, Salaries & Expenses (FCC)[3]	(132,539)				
Total Financing Sources	9,429,256				
Net Cost of Operations	10,367,032	10,303,597	3,280,147	13,583,744	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	6,443,735				
Total Net Position	$ 7,452,321	$ 7,109,629	$ 342,692	$ 7,452,321	**Net Position - Ending Balance**

Required Supplementary Information

Required Supplementary Information – Schedule of Budgetary Resources by Major Account
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in thousands)

OMB Circular No. A-136, *Financial Reporting Requirements—Revised*, requires additional disclosure of an entity's budgetary information by major budgetary accounts if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. Major budgetary accounts of the Commission include Salaries and Expenses (S&E), Auctions, COVID-19 Telehealth, EBCF-EBBP, S&T Networks, ECF, TVBRF, USF and TRS. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auctions program. The COVID-19 Telehealth Program represents support for eligible health care providers responding to the pandemic by providing funding for telecommunications services, information services, and connected devices necessary to provide critical connected care services whether for treatment of the COVID-19 disease or other health conditions during the COVID-19 pandemic. The EBCF-EBBP under which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices during an emergency period relating to the COVID-19 pandemic. The S&T Networks represents the S&T Networks Program under which reimbursements for the removal, replacement, and disposal of covered communications equipment or services that pose an unacceptable risk to the national security of the United States or the security and safety of U.S. persons from the networks of providers of advanced communications service. The ECF assists schools and libraries by providing connected devices such as laptops, tablets, or similar end-user devices, and connectivity, to students, school staff, and library patrons during the COVID-19 Pandemic. The TVBRF represents reimbursements of relocation costs for eligible entities and for consumer education relating to the reorganization of broadcast television. USF includes the High Cost, Lifeline, Rural Health Care, E-Rate and the CCPP programs. The TRS Fund represents a program established to support relay services necessary for telecommunications access by speech or hearing-impaired individuals. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the following chart are the major budgetary accounts of the Commission that are aggregated and presented in the Combined Statement of Budgetary Resources.

Schedule of Budgetary Resources by Major Account

FY 2021	S&E	Auctions	COVID-19 Telehealth	EBCF (EBB Program)	S&T Networks	ECF	TVBRF	USF	TRS	Other	Total
Budgetary Resources:											
Unobligated balance from prior year budget authority, net	$ 39,074	$ 50,034	$ 6,103	$ -	$ -	$ -	$ 798,097	$ (9,267,724)	$ 348,245	$ 2,841	$ (8,023,330)
Appropriations (discretionary and mandatory)	65,000	-	249,950	3,200,000	1,900,000	7,172,000	-	9,189,627	1,562,174	-	23,338,751
Spending authority from offsetting collections (discretionary and mandatory)	374,988	134,495	-	-	-	-	-	-	-	4	509,487
Total budgetary resources	$ 479,062	$ 184,529	$ 256,053	$ 3,200,000	$ 1,900,000	$ 7,172,000	$ 798,097	$ (78,097)	$ 1,910,419	$ 2,845	$ 15,824,908
Status of Budgetary Resources:											
New obligations and upward adjustments (total)	$ 356,311	$ 155,741	$ 89,894	$ 907,557	$ 6,818	$ 1,311,091	$ 143,307	$ 8,792,251	$ 1,446,854	$ -	$ 13,209,824
Unobligated balance, end of year:											
Apportioned, unexpired accounts	122,509	28,788	166,159	2,292,443	1,893,182	5,860,909	654,790	-	463,565	2,816	11,485,161
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	(8,870,348)	-	-	(8,870,348)
Unapportioned, unexpired accounts	5	-	-	-	-	-	-	-	-	29	34
Unexpired unobligated balance, end of year	122,514	28,788	166,159	2,292,443	1,893,182	5,860,909	654,790	(8,870,348)	463,565	2,845	2,614,847
Expired unobligated balance, end of year	237	-	-	-	-	-	-	-	-	-	237
Unobligated balance, end of year (total)	122,751	28,788	166,159	2,292,443	1,893,182	5,860,909	654,790	(8,870,348)	463,565	2,845	2,615,084
Total status of budgetary resources	$ 479,062	$ 184,529	$ 256,053	$ 3,200,000	$ 1,900,000	$ 7,172,000	$ 798,097	$ (78,097)	$ 1,910,419	$ 2,845	$ 15,824,908
Outlays, Net:											
Outlays, net (discretionary and mandatory)	$ (26,465)	$ 797	$ 149,057	$ 572,662	$ 2,370	$ 4,212	$ 308,951	$ 8,696,537	$ 1,444,397	$ (4)	$ 11,152,514
Distributed offsetting receipts (-)	(34,679)	-	-	-	-	-	-	-	-	-	(34,679)
Agency outlays, net (discretionary and mandatory)	$ (61,144)	$ 797	$ 149,057	$ 572,662	$ 2,370	$ 4,212	$ 308,951	$ 8,696,537	$ 1,444,397	$ (4)	$ 11,117,835

Required Supplementary Information – Schedule of Budgetary Resources by Major Account (continued)

FY 2020	S&E	Auctions	COVID-19 Telehealth	TVBRF	USF	TRS	Other	Total
Budgetary Resources:								
Unobligated balance from prior year budget authority, net	$ 81,898	$ 41,860	$ -	$ 950,723	$ (10,763,629)	$ 298,766	$ 2,840	$ (9,387,542)
Appropriations (discretionary and mandatory)		-	200,000	-	7,960,080	1,488,713	-	9,648,793
Spending authority from offsetting collections (discretionary and mandatory)	339,880	132,539	-	-	-	-	2	472,421
Total budgetary resources	$ 421,778	$ 174,399	$ 200,000	$ 950,723	$ (2,803,549)	$ 1,787,479	$ 2,842	$ 733,672
Adjustment to unobligated balance brought forward, October 1								
Status of Budgetary Resources:								
New obligations and upward adjustments (total)	$ 388,460	$ 131,676	$ 200,000	$ 243,229	$ 6,911,471	$ 1,441,307	$ -	$ 9,316,143
Unobligated balance, end of year:								
Apportioned, unexpired accounts	26,776	30,982	-	707,494	-	346,172	2,816	1,114,240
Exempt from apportionment, unexpired accounts	-	-	-	-	(9,715,020)	-	-	(9,715,020)
Unapportioned, unexpired accounts	6,338	11,741	-	-	-	-	26	18,105
Unexpired unobligated balance, end of year	33,114	42,723	-	707,494	(9,715,020)	346,172	2,842	(8,582,675)
Expired unobligated balance, end of year	204	-	-	-	-	-	-	204
Unobligated balance, end of year (total)	33,318	42,723	-	707,494	(9,715,020)	346,172	2,842	(8,582,471)
Total status of budgetary resources	$ 421,778	$ 174,399	$ 200,000	$ 950,723	$ (2,803,549)	$ 1,787,479	$ 2,842	$ 733,672
Outlays, Net:								
Outlays, net (discretionary and mandatory)	$ 23,881	$ (7,835)	$ 36,982	$ 546,036	$ 8,249,044	$ 1,423,802	$ (2)	$ 10,271,908
Distributed offsetting receipts (-)	(28,406)	-	-	-	-	(1,363)	-	(29,769)
Agency outlays, net (discretionary and mandatory)	$ (4,525)	$ (7,835)	$ 36,982	$ 546,036	$ 8,249,044	$ 1,422,439	$ (2)	$ 10,242,139

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III. OTHER INFORMATION (UNAUDITED)

Summary of Financial Statement Audit

Financial Statement Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

See accompanying auditor's report.

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Non-Conformances	**0**	**0**	**0**	**0**	**0**	**0**

Payment Integrity

The Federal Communications Commission (FCC or Commission) incorporated improper payment analysis and testing into its processes in Fiscal Year (FY) 2021 in compliance with Federal statutes[1] and guidance detailed in the Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (Appendix C). Appendix C defines "significant improper payments" as gross annual improper payments (*i.e.,* the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

The following link contains additional information on improper payments reported across the Federal government, including information reported by the FCC in prior fiscal years: https://paymentaccuracy.gov/.

The Commission has ten components with funding disbursements that are under the direction of the Commission and its Administrators. The Commission categorizes the components as listed below.

- Universal Service Fund High Cost Program (USF-HC)
- Universal Service Fund Schools and Libraries Program (USF-S&L) or (E-Rate)
- Universal Service Fund Lifeline Program (USF-Lifeline) or (USF-LL)
- Universal Service Fund Rural Health Care Program (USF-RHC)
- Universal Service Fund Administrative Costs (USF-Admin)
- Interstate Telecommunications Relay Services Fund (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC)
- TV Broadcaster Relocation Fund (TVBRF)
- Coronavirus Disease 2019 (COVID-19) Telehealth Program (CV19)

I. Actions Taken to Address Auditor Recovery Recommendations

USF-LL

The following are brief descriptions of the FCC and Universal Service Administrative Company's (USAC) key efforts to prevent and reduce improper payments in the USF Lifeline Program:

National Verifier: The FCC and USAC launched the National Verifier in all states and territories by the end of 2019. The National Verifier increases program integrity by applying a consistent eligibility standard for Lifeline Program participants. California, Texas, and Oregon will continue to manage their own eligibility process for most Lifeline participants living in those states, in which eligibility determinations are processed by a state agency or its administrator, and USAC will monitor these states' eligibility determination processes to ensure compliance with the Commission's rules. The National Verifier will significantly reduce improper payments related to prior program integrity issues, such as ineligible subscribers, deceased subscribers, duplicate subscribers, and oversubscribed addresses. The National Verifier utilizes a combination of automated and manual processes to verify eligibility and confirm whether a consumer is qualified for the Lifeline program. To confirm participation in a qualifying program, the National Verifier connects to multiple eligibility databases, including connections with the U.S. Department of Housing and Urban Development database to verify federal public housing assistance, and with the

[1] Payment Integrity Information Act (PIIA) of 2019.

Centers for Medicare and Medicaid Services (CMS) database to verify Medicaid participation. The National Verifier also connects to state Supplemental Nutrition Assistance Program, Medicaid, Supplemental Security Income, and/or income databases in 23 of the launched states and territories. With its existing connections, the National Verifier is automatically verifying the eligibility of up to 84% of consumers seeking to enroll in the Lifeline program. To further refine the verification process, USAC continues to work with states and territories to implement additional automated connections to eligibility databases. USAC has updated its programmatic review and audit procedures to properly address risks in the program, which are changing as a result of the National Verifier. USAC's Office of General Counsel has also stood up the Fraud Risk Group which will continue to refer potential cases of waste, fraud, and abuse to OIG and conduct internal investigations to better provide OIG with critical information at the outset.

Sales Agent Compliance: In October 2019, the Commission adopted a rule prohibiting Lifeline service providers from paying commissions to enrollment representatives based on the number of applications or enrollments processed by those representatives. In addition, the Commission established the Representative Accountability Database to identify and register sales agents who assist consumers in applying for Lifeline. The Representative Accountability Database, which became mandatory for all Lifeline service providers on May 25, 2020, issues unique identifiers to enrollment representatives that allow USAC to monitor those representatives' activities in USAC's Lifeline systems, such as the National Lifeline Accountability Database (NLAD) and the National Verifier. As part of this monitoring effort, USAC is able to better detect suspicious activity in its systems and restrict the access of enrollment representatives engaged in potentially fraudulent activity (e.g., enrolling fictitious subscribers). These restrictions may include a permanent lock-out of an enrollment representative from USAC's systems, and referral of individual enrollment representatives to the FCC's enforcement authorities where appropriate.

Prevention of Duplicate Support: With the launch of the National Verifier, USAC has enhanced the NLAD to ensure that no enrollment is permitted in a fully launched state until the NLAD confirms that the National Verifier has found the consumer to be eligible. Further, the National Verifier itself will not deem a consumer eligible until it confirms that the consumer is not already enrolled in the program as recorded in the NLAD. These cross-checks should prevent service providers from attempting to enroll a duplicate subscriber. USAC is coordinating with the state commissions in California, Texas and Oregon to identify and address any instances of duplicate enrollments.

Preventing Support for Deceased Subscribers: USAC automatically prevents the enrollment of a deceased subscriber through its connection to TransUnion, which leverages the Social Security Administration's Death Master File, among other source data. Beginning in June 2021, USAC checks to see whether any subscribers appear to have died after enrollment, and does not pay Lifeline support for any such subscribers who do not respond to requests to confirm eligibility.

Program Integrity Reviews: USAC's Lifeline Program Integrity team will conduct detailed analysis of Lifeline subscribership data to identify potential instances of non-compliance. Based on the analysis, the Lifeline Program integrity team will perform targeted program integrity reviews of high-risk areas. The results of these reviews will be used to address compliance gaps and enhance preventative controls with the goal of reducing improper payments.

Non-Usage Compliance: USAC will implement programmatic reviews to determine whether ETCs are in compliance with non-usage rules that prohibit ETCs from claiming subscribers who did not use their Lifeline service for 45 days. In addition, USAC will also review the possibility of adding system enhancements that will assist USAC in detecting whether ETCs are potentially violating non-usage rules.

Improper Payment Analysis: USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address the root causes. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.

Improper Payment Testing Procedures, including Non-Usage Testing: The FCC and USAC will work together to determine what procedures can be added or enhanced to better ensure that improper payment testing procedures adequately assess the risk associated with the USF Lifeline Program. To assist with this initiative, USAC has engaged external auditors who are testing the compliance of multiple service providers with the Lifeline Program non-usage rules. The methodology used in such targeted audit will be used by USAC's audit department to test other service providers in the future.

USF-RHC

The following are brief descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF Rural Health Care Program:

Competitive Bidding: The Rural Health Care Program has a competitive bidding checklist that is used to help ensure compliance with competitive bidding requirements during application review. The Rural Health Care Program will review its competitive bidding checklist with USAC's Office of General Counsel Fraud Risk Group and USAC's Audit & Assurance Division to enhance the checklist to help prevent future improper payments related to competitive bidding violations.

Program Integrity Efforts: USAC's Rural Health Care Program has enhanced its application review procedures to ensure compliance with the Commission's urban and rural rate rules. In addition, USAC will continue to test Rural Health Care participants' compliance with competitive bidding requirements as part of its application review procedures. Through USAC's strengthened application review procedures, USAC will verify Rural Health Care participants' compliance with the Rural Health Care Program rules. As such, competitive bidding, urban rate, and rural rate issues will be identified and addressed prior to disbursement, thereby reducing future instances of improper payments. USAC has also increased its outreach to Rural Health Care participants regarding urban and rural rate issues and the FCC's competitive bidding rules to assist participants with achieving and maintaining compliance. The outreach will communicate to applicants via webinars, newsletters, and one-on-one sessions the standards by which the rural and urban rates must be calculated/documented when submitting the FCC Form 466 each year.

Invoicing Error and Goods/Services Not Fully Utilized: The Rural Health Care Program has implemented an enhanced review of FCC Forms 463, where applicants must provide proof of services and costs. For Telecom, the beneficiary must submit invoice(s) based on the HCP Support Schedules (HSS). If the service provider bill is less than the HSS, the invoice(s) will be modified to match the actual bill. In addition, USAC continues to perform additional outreach to remind the applicants and service providers that USAC may only be invoiced for services actually delivered and the amounts on the customer bills must match the dates of service that were submitted and approved on the FCC Form 467 and the amounts that were approved in the Funding Commitment Letter (FCL). USAC currently reminds applicants and service providers that they must notify USAC of any changes to the recurring costs and/or dates of service over the course of the commitment so that the commitment amount may be properly adjusted.

Ineligible Service and Entity: The Rural Health Care Program will continue to remind applicants that they must submit a service substitution if there is a change in service. In addition, there will be increased training to ensure the reviewers are better trained in eligibility review and use of the systems. The Rural Health Care Program will implement system validations to check for 50% majority rural exceptions for Consortia during the lifecycle and lifespan of a funding commitment prior to invoices being approved. The system validation is on the IT roadmap. However, RHC has implemented a manual validation process to identify non-compliant HCPs on a more frequent basis (monthly) and has included a validation during commitment issuance to ensure that ineligible sites do not receive funding.

Outreach: USAC has enhanced its outreach approach regarding the common findings, including enhancing website training materials, webinars, and communicating best practices based on the observations made from the PQA findings.

Improper Payment Analysis: USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address the root causes. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.

USF-S&L

The following are brief descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF Schools and Libraries Program:

Invoicing Error: The Schools and Libraries Program has taken a strategic, multi-pronged approach to reducing the risk around invoicing errors through realizing enhancements, applying risk-based strategies to procedure reviews and processes improvements. USAC's Schools and Libraries Invoicing team leveraged open data sets and coding capabilities to improve the efficiency of eligibility validations. Additionally, the School and Libraries Program has improved customer awareness and knowledge through targeted internal and external training, emphasizing guidance on common audit findings, and high-risk areas. Training includes many case studies educating applicants how to avoid frequent mistakes, which reduces the need for modification and rejection.

Lack of or Incomplete Documentation (Service Provider Lowest Corresponding Price): The Schools and Libraries Program is taking steps to remind the Service Providers about their obligations to comply with Lowest Corresponding Price (LCP) requirements on an annual basis. The Schools and Libraries Program will continue to enhance its existing LCP service provider training materials to include, but not limited, to the following:

- Need for document retention including when acquisitions and mergers occur.
- Certification of LCP requirements.

Program Integrity: The Schools and Libraries Program employs a heightened scrutiny review (HSR) to identify and perform additional review over applications that may be at risk for areas of non-compliance. The Schools and Libraries Program has made enhancements to its heightened scrutiny review procedures to further reduce the risk of improper payments. These enhancements were implemented with Fund Year 2020 applications. Annually, the HSR team leverages data analytics on the current population and considers revisions to the selection criteria for the next year based, in part, on audit findings and program risk factors.

Outreach: USAC enhanced its outreach approach, customizing specific directions to program participants based on their Payment Quality Assurance (PQA) exceptions. Outreach includes updates to the website training materials, conducting webinar(s) focused on and communicating best practices based on the observations made during the prior year's PQA reviews. USAC provides annual training and implemented an Online Training Library to provide program participants with tools that they can access at their convenience.

Improper Payment Analysis: USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address the root causes. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.

Schedule of Civil Monetary Penalties

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 ("the 2015 Act"), which was included as Section 701 of the Bipartisan Budget Act of 2015, was signed into law. The 2015 Act amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect.

The 2015 Act required agencies use an interim final rulemaking (IFR) to adjust the level of civil monetary penalties in 2016 with an initial "catch-up" adjustment. The 2015 Act also requires agencies to continue to make annual inflation adjustments in future years and to report on these adjustments annually.

On December 23, 2020, OMB provided its annual inflation adjustment update to agencies through OMB Memorandum M-21-10, *Implementation of Penalty Inflation Adjustments for 2021*. On December 29, 2020, the FCC's Enforcement Bureau adopted and released an order, DA 20-1540, which adjusted the Commission's forfeiture penalties for inflation for 2021.

The following table shows various civil monetary penalties that may be used by the Commission in carrying out its mission as well as additional information about the FCC's statutory authority for these penalties and the location of the FCC's most recent action to adjust these penalties for inflation.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Communications Act of 1934, as amended	Willful or Repeated Violation	1954 - 2010	2021	Up to $3,870,946	Enforcement Bureau (EB)	Federal Register 86 No. 10 (January 15, 2021): 86 FR 3830. https://www.govinfo.gov/app/details/FR-2021-01-15/2021-00432 https://www.fcc.gov/document/2021-annual-adjustment-civil-monetary-penalties-reflect-inflation
47 U.S.C. 202 (c)	Discrimination	1989	2021	$12,439 $622/day	EB	Same as above
47 U.S.C. 203 (e)	Schedules of Charges	1989	2021	$12,439 $622/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2021	$24,877	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2021	$2,487	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2021	$2,487	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2021	$12,439	EB	Same as above
47 U.S.C. 223 (b)	Obscene/ harassing telephone calls	1983	2021	$128,904	EB	Same as above
47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2021	$11,905/violation $35,715/day for each day of continuing violation up to $1,190,546 for any single act or failure to act	EB	Same as above
47 U.S.C. 362 (a)	Radio on board ships – Forfeitures	1989	2021	$10,366	EB	Same as above
47 U.S.C. 362 (b)	Radio on board ships - Forfeitures	1989	2021	$2,074	EB	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
47 U.S.C. 386 (a)	Radio on board ships - Forfeitures	1989	2021	$10,366	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2021	$2,074	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2021	$51,827/violation or each day of a continuing violation up to $518,283 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2021	$207,314/violation or each day of a continuing violation up to $2,073,133 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2021	$419,353/violation or each day of a continuing violation up to $3,870,946 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2021	$20,731/violation or each day of a continuing violation up to $155,485for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2021	$119,055/violation or each day of a continuing violation up to $1,190,546 for any single act or failure to act	EB	Same as above
47 U.S.C. 507(a)	Payment disclosure	1954	2021	$2,053	EB	Same as above
47 U.S.C. 507(b)	Payment disclosure	1954	2021	$301	EB	Same as above
47 U.S.C. 511	Penalty provisions	2020	2021	$101,182/violation or each day of a continuing violation up to $2,023,640 for any single act or failure to act	EB	Same as above
47 U.S.C. 554	Equal employment opportunity	1992	2021	$919	EB	Same as above

Office of Inspector General's Management and Performance Challenges

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 5, 2021

TO: Chairwoman Jessica Rosenworcel
Commissioner Brendan Carr
Commissioner Geoffrey Starks
Commissioner Nathan Simington

FROM: Inspector General David Hunt for RM, AIGA

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting the annual statement summarizing its assessment of the most serious management and performance challenges facing the Federal Communications Commission (FCC) in Fiscal Year (FY) 2021 and beyond. During its audits and investigations, OIG has recommended actions that best address these challenges. Additional information on OIG audits and investigations can be found in our most recent Semiannual Reports to Congress.

Information Security

In alignment with FCC's strategic objective to effectively modernize the agency's information technology, the FCC has implemented significant information technology (IT) initiatives to enhance services to its stakeholders. The onset of the COVID-19 pandemic in 2020 brought challenges that the agency had to address with accelerated timelines. Even so, FCC is moving forward to implement these initiatives, keeping IT security as an 'operational enabler' with high priority.

Based on the FY 2021 FISMA evaluation results, the FCC's information security program was effective and in compliance with FISMA legislation, OMB memoranda, and other applicable guidance. This is the first year that the agency's information security program has been in compliance. Sustaining and improving upon this notable accomplishment will be key.

The evaluation results identified one significant deficiency in the IT security Identity and Access Management (I&AM) domain. The report includes a total of 17 recommendations, of which 10 are specifically related to the I&AM domain. We believe it is worth noting that one of the 10 recommendations relates to longstanding issues with FCC's implementation of HSPD-12 PIV[1] card

[1] HSPD-12 PIV cards, which may be generically referred to as PIV cards, refer to the common identification card. required by the Homeland Security Presidential Directive 12 (HSPD 12), Policy for a Common Identification Standard

for logical access of all agency employees. The HSPD-12 PIV card deficiency and related recommendation has been repeated every year since FY 2016. Management repeatedly has cited resource constraints as the reason why the recommendation was not implemented. We encourage management to prioritize this and other I&AM recommendations, to limit the risk of unauthorized access.

Cloud-based technology is one of the newer technologies the FCC continues to implement in FY 2021 and beyond. These modernization projects fall under the I&AM domain. The FCC needs to be consistent in performing oversight and monitoring the implementation of these efforts.

Universal Service Fund Programs

The Telecommunications Act of 1996 created the framework for the Universal Service Fund (USF or Fund), consisting of support mechanisms for: 1) providing financial support to eligible telecommunications carriers that serve high-cost areas; 2) assisting schools and libraries to obtain telecommunications and internet services; 3) assisting low-income consumers to obtain affordable telephone service; and 4) assisting rural health care providers to gain access to telecommunications and internet services. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company (USAC).

OIG has ongoing audits to identify program risks, ensure compliance with program rules, and provide recommendations to reduce waste and abuse of program resources. OIG has also devoted significant assets to investigating allegations of fraudulent activity involving Fund programs.

> Within *Strategic Goal 1: Closing the Digital Divide, FCC recognized the need to develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, we employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.*
>
> *Strategic Objective 1.1 seeks to expand broadband deployment in all parts of the country, including hard-to-serve areas, rural areas, and Tribal lands, and reduce the digital divide across America by creating a light-touch regulatory environment that maximizes private sector investment in broadband.*

The Commission's continuing efforts supporting this objective include the FCC's comprehensive reforms in the USF programs (e.g., implementation of the Connect America Fund). These efforts will require a significant investment of Commission resources, as well as effective USAC administration of Fund programs. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations foster effective and efficient programs, especially during the pandemic, are significant management challenges.

for Federal Employees and Contractors.

Universal Service Fund Contributions Reform

There are several thousand contributors to the Federal USF. However, the current USF contributions system is built on regulatory constructs from decades ago.[2] Contribution reform is needed because, although the marketplace has shifted to new services and new technologies, businesses are not required to finance the USF based on revenues from these new sources. Only revenues from interstate and international telecommunications services and certain other telecommunications are subject to assessment. Additionally, the current form used to collect information from potential contributors uses obsolete terminology and categories. While non-telecommunications revenues — which are not assessed — have almost doubled between 2010 and 2018, assessable telecommunications services and related revenues have declined sharply.[3]

The FCC has sought public comment on alternative contributions methodologies multiple times. For example, in June 2020, the FCC sought comments to refresh the record in the 2012 Contributions Reform Further Notice of Proposed Rulemaking. This Notice pertains to whether the Commission should exercise its permissive authority under Section 254(d) of the Telecommunications Act of 1996[4] to include in the contribution base revenues derived from the provision of "one-way" voice over Internet Protocol (VoIP) services.[5] An agreement has not yet been reached on the best way to increase contributions to the USF to ensure its sustainability. Per FCC officials, this issue will be addressed in accordance with the priorities on the Commission's agenda.

High Cost Program

The USF High Cost program provides $4.5 billion annually to ensure that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the USF Intercarrier Compensation (ICC) Transformation Order, the Rate-of-Return Carriers Reform Order, and the series of Connect American Fund (CAF) orders issued over the past decade (including the Rural Digital Opportunity Fund and the Mobility Funds), the High Cost program has been transitioning its support to multi-purpose networks capable of fixed and mobile broadband and voice services in rural, insular, and other high cost areas, and phasing out support for voice-only networks.

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[2] Testimony of Carol Mattey, Principal of Mattey Consulting LLC, before the Subcommittee on Communications, Technology, Innovation and the Internet, of the Committee on Commerce, Science and Transportation, U.S. Senate, on "The Impact of Broadband Investments in Rural America," March 12, 2019.

[3] *Universal Service Monitoring Report; CC Docket No. 96-45;* December 2020, For Data Received Through September 2020, Prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service; Table 1.1.

[4] Title 47 CFR 254d-(d) Telecommunications carrier contribution. Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.

[5] FCC Public Notice; DA 20-614; Released June 11, 2020; Pleading Cycles Established; Comments Sought to Refresh the Record in the 2012 Contribution Methodology Reform Proceeding with Regard to One-Way VOIP Service Providers; WC Docket No. 06-122; GN Docket No. 09-51.

During this transition, the High Cost program is using separate support mechanisms for the legacy High Cost program and the new CAF programs. The CAF relies on incentive-based, market-driven policies, utilizing methodologies such as competitive bidding, to distribute High Cost program services in a more efficient and effective manner. Funding under the CAF is more transparent; easier to administer; and does not present the inherent risks and impediments to preventing fraud, waste and abuse in the program, compared to the historical model used to distribute funding to rate-of-return carriers, which remains problematic.

Nevertheless, the FCC's continuing challenge is to ensure the CAF orders are timely implemented and meet their purposes and goals. Even under the comparatively simplified CAF distribution models, systematic monitoring and verification of the CAF programs will be necessary to ensure carriers have fulfilled their build-out obligations and service requirements to all required locations in their service areas, and provide service at speeds required under the Commission's rules. USAC developed an information system, the High Cost Universal Broadband (HUBB) portal, to assist USAC management in determining if carriers were meeting their obligation to provide high-speed internet to specific underserved locations, including meeting minimum performance standards and service speeds.

Carriers with deployment obligations are required to report progress in meeting their FCC-required milestones by filing broadband deployment data and related certifications within the HUBB portal. The portal tracks where carriers are building-out high-speed Internet service by latitude and longitude; provides evidence that carriers are meeting minimum performance standards, i.e., upload and download speeds; and documents whether they have met applicable deployment milestones. All this information must be monitored and timely analyzed, and USAC must take appropriate action against carriers who are not meeting their deployment and performance requirements, including withholding funding and, as appropriate, timely reporting such activity to the FCC's Enforcement Bureau and to OIG, particularly where USAC observes carrier rule violations that suggest a carrier's actions are not isolated, but are part of a pattern of inappropriate activity.

Toward these ends, the Commission, through the work of the Broadband Data Task Force, is developing new data collection and mapping platforms, providing the necessary tools for meeting the challenges of widening broadband's reach across the county and ensuring the efficient uses of spectrum. The Task Force's efforts to implement the Broadband Data Act, passed by Congress last year, will develop more precise and accurate fixed and mobile broadband coverage maps with the participation of the industry and the public. This will not only enable the Commission to better ensure service in underserved areas of the country, it also will provide an enforcement tool to ensure Commission spectrum grantees are fulfilling the conditions of their spectrum awards. The public, state, local, and Tribal governmental entities on the ground will have access to a comprehensive database of all locations in the country to which mobile and fixed broadband will be available. Parties will be able to file whistleblower complaints about spectrum grantees who are violating the conditions of their spectrum grants, which could involve fraudulent activity on the part of grantees that would be difficult to detect without whistleblower reports.

<u>Lifeline Program</u>

The FCC and USAC must continue to devote significant resources to combat waste, fraud, and abuse in the Lifeline program. Significant reforms to the Lifeline program in 2012 and 2016, with implementation of reforms recommended by this Office, have significantly reduced fraud in the program.

Nevertheless, OIG concerns related to eligible telecommunications carrier (ETC) monitoring and compliance with usage rules have proliferated over the last several years. OIG maintains an active roster of investigations examining the conduct of multiple ETCs and their agents. The U.S. Department of Justice is pursuing criminal and civil sanctions against the culprits already identified by OIG's investigations. The FCC must continue to ensure that adequate resources are dedicated to identify new forms of fraud as the program evolves.

As in previous years, OIG continues to identify risks for the Lifeline program, including:

- ETCs lack proof of eligibility for subscribers to receive Lifeline service;
- ETCs and their agents enrolling ineligible subscribers; and
- ETC failure to timely de-enroll subscribers who no longer qualify, or who wish to de-enroll.

Moreover, the FCC and USAC must continue to monitor National Verifier enrollment attempts to identify ETCs and their agents who may attempt to circumvent added program safeguards which have been implemented. Although USAC completed its implementation of the Representative Accountability Database (RAD), the FCC and USAC must ensure RAD fulfills its purpose by identifying and blocking agents who attempt fraudulent subscriber enrollments, and identifying attempts by agents previously blocked-out of RAD and preventing them from re-enrolling using other agent identities. Moreover, the FCC and USAC must ensure ETCs furnish agent identification information for all NLAD and National Verifier transactions.

Finally, in light of the ongoing COVID-19 pandemic, starting in March 2020, the Wireline Competition Bureau (WCB) waived certain Lifeline program rules through September 30, 2021, governing recertification, reverification, general de-enrollment, subscriber usage, income documentation, and documentation requirements for subscribers in rural Tribal lands, as well as guidance concerning USAC periodic reviews. The waivers arose from WCB's recognition that telemedicine, telework, and online learning are necessary social distancing measures and, therefore, access to affordable communications services for low-income consumers is even more important.

Nonetheless, many of the waived rules were originally implemented to prevent waste and abuse in the program. The Commission has now rescinded several of these waivers, including the usage rule waiver. However, we must try in the coming months to ensure that ETCs are again abiding by the rules now in effect and that these waivers did not become vehicles for abuse of USF Funds.

Emergency Broadband Benefit Program

To address the COVID-19 pandemic, Congress passed an Appropriations Act which became law on December 27, 2020. The Act announced the Emergency Broadband Connectivity Fund. From this Fund, the FCC established the Emergency Broadband Benefit (EBB) Program in February 2021, with a budget of $3.2 billion. The purpose of this program is to help families and households struggling to afford internet service during the COVID-19 pandemic. Its goal is to connect eligible low-income households disrupted by COVID-19 to jobs, critical healthcare services, virtual classrooms, and more.

This program was designed with the framework of the Lifeline Program. Accordingly, the EBB Program will leverage Lifeline systems like the Lifeline National Eligibility Verifier, the National Lifeline Accountability Database, and the Lifeline Claims System for subscriber eligibility, enrollment, and service provider reimbursement. Note that this program was established and implemented under expeditious timeframes due to immediate community needs. This scenario could create greater opportunity and risk of fraud, waste, and abuse of program funds by service providers and consumers.

In addition to discounts for broadband services, EBB funds can be used to buy related equipment, such as computers and tablets. The FCC should note that purchases of equipment carry a greater risk of theft and accountability challenges. Further, the impact of accepting new broadband providers into the EBB program (non-Lifeline Eligible Telecommunication Carriers) and providing new consumer eligibility allowances (outside of Lifeline program rules) should be considered by the FCC as an increased program risk. The new participants and eligibility requirements will steepen the program learning curve for all involved and could increase the risk of error, fraud, waste, and abuse throughout the program.

Our office and the FCC must devote significant resources to monitor the Emergency Broadband Benefit Fund over the coming months to ensure that program participants comply with program requirements. As of September 2021, OIG is auditing the EBB program to assess participating providers' compliance with the program requirements under Title IX, Broadband and Internet Access Service, Section 904 of the Consolidated Appropriations Act of 2021.

Although many EBB rules and requirements are modeled after the Commission's Lifeline rules, not all EBB providers are familiar with the Lifeline regulatory model, including USAC's National Verifier, the Lifeline Claim System and the National Lifeline Accountability Database. Therefore, additional scrutiny of non-ETC EBB program provider compliance will be necessary. The Wireline and Enforcement Bureaus have already found it necessary to issue industry advisories concerning lapses in compliance based on a variety of subscriber complaints ranging from unauthorized enrollments to failure to grant EBB credits on consumer broadband bills.

A broader range of consumers are eligible for EBB service as compared to Lifeline applicants. FCC and USAC must develop new metrics to identify program enrollment risks not already mitigated or addressed by NLAD or the National Verifier. The Commission also chose not to bar EBB providers from providing commission-based compensation to their agents for enrolling EBB subscribers. Many EBB providers are also Lifeline carriers and many of their agents market both EBB and Lifeline service.

Given the more generous subsidy available under the EBB program, combined with the accompanying Lifeline subsidy received for many enrollments, providers may now offer more generous incentives to agents in exchange for EBB enrollments. OIG is very concerned agents will be increasingly motivated to engage in abusive enrollment conduct to secure higher payouts from providers. Additionally, both the Commission and the OIG must allocate resources to comply with auditing obligations under the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, tit. IX, § 904(i), 134 Stat. 2130, 2135.

Schools and Libraries (E-rate) Program

Effective in 2015, the Commission's two E-rate Modernization Orders adopted three program goals: 1) ensure schools and libraries have access to affordable high-speed broadband internet services; 2) maximize the cost-effectiveness of spending for E-rate program supported purchases; and 3) ensure the application process is fast, simple, and efficient. The orders also increased the program funding cap from $2.4 to $3.9 billion and established a performance management system to help evaluate the effectiveness of the modernization orders and identify program improvements.

The COVID-19 pandemic directly affected school systems across the entire country and, thereby, stressed the delivery of E-rate program services. Instead of students attending school in person and accessing the internet within schools and libraries, many students are now using remote learning for portions of the school year based on quarantines.

In addition to challenges associated with delivering effective E-rate program services during the pandemic, FCC and USAC management must ensure adequate program controls to detect and deter inherent program risks in addition to risks identified by prior OIG and USAC audits and OIG investigations, including:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Potential conflicts of interest in the competitive bidding process;
- Inadequate documentation to substantiate compliance with competitive bidding rules; and
- Service Provider billing inaccuracies.

Emergency Connectivity Fund

In early 2021, the Office of Investigations tracked the progress of the American Rescue Plan Act of 2021 (ARPA), which proposed appropriating $7.2 billion to establish the "Emergency Connectivity Fund" (ECF), of which $1 million was to go to OIG to oversee the program. The ECF program was to generally follow the USF's Schools and Libraries program model but offer 100 percent reimbursement for items not eligible for funding under that program, such as computers and internet hotspots. Office of Investigations staff suggested additional methods to strengthen the ECF against fraud, waste, and abuse to Senate and House committee members. OIG successfully obtained legislative direction requiring the Commission to compile inventories of devices and services and requiring schools, libraries, and service providers to robustly certify compliance with ECF program rules.

Since passage of the ARPA, OIG has requested that USAC, the ECF program administrator, collect and maintain IP address information. WCB and Office of Managing Director (OMD) have provided some assurances that USAC will do so. As of the beginning of September 2021, applicants have requested $5.137 billion from the program to fund 9.1 million connected devices and 5.4 million broadband connections. We expect commitments of funding in the next 60 days. But, as of yet, OIG has not obtained access to the underlying ECF data.

Rural Health Care Program and Other Newly Created Health Care Programs

When the Commission established the Rural Health Care (RHC) program in 1997, it capped program funding at $400 million per funding year. Beginning in funding year 2016, health care provider funding requests for high-speed broadband began to outpace that funding cap. On June 25, 2018, the Commission released the Rural Health Care Program Funding Cap Order, which adopted measures to promote health care delivery and telemedicine in rural areas by providing a sufficient and more predictable source of universal service funding. Specifically, the Commission adopted rules that: 1) increased the annual RHC program funding cap to $571 million and applied it to Funding Year 2017; 2) annually adjusted the RHC program funding cap to reflect inflation, beginning with funding year 2018; and 3) established a process to carry unused funds forward from past funding years for current and future use.

To address various shortcomings seen in the RHC program in recent years, including lack of a "fair and open" standard for competitive bidding or prohibitions on conflicts of interest, on August 1, 2019, the Commission adopted the Report and Order Promoting Telehealth in Rural America, WCB Docket No. 17-310. The Report and Order aimed to improve the RHC program competitive bidding process by adding a "fair and open" standard. It also implemented rules prohibiting service providers who intend to bid on supported services from assisting an applicant in completing the request for proposal or request for services forms and prohibiting a service provider who has submitted a bid from evaluating bids or choosing a winning bidder.

USAC began implementing these rules in 2021 and OIG has requested updates on that process. Nevertheless, effective implementation of these newer rules by the FCC and USAC, diligent agency enforcement of both the newer rules and the existing rules, as well as general oversight of the Program, remain a significant management challenge. FCC's challenge is to continually use innovations to create ways to support rural hospitals and healthcare providers during the pandemic without creating gaps in controls that increase the risks for conflicts of interests, fraud, and abuse.

<u>COVID-19 Telehealth Program</u>

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, providing $2.4 trillion in economic relief to individuals and businesses throughout the country to address the health, economic, and social impacts of the COVID-19 pandemic. The CARES Act allocated $200 million to the FCC to support health care providers in their provision of connected care services. On March 31, 2020, to effectuate Congress's intent, the Commission adopted a Report and Order establishing the COVID-19 Telehealth Program.

OIG suggested ways to reduce risk in this program to WCB, such as bolstering certifications in the application and invoicing forms. Also, in response to a FCC management inquiry regarding the Single Audit Act's implications for the Telehealth Program, OIG's Office of Audit recommended that management consider tests of program compliance to ensure funding went to the areas hardest hit by COVID-19 and where funding has the greatest impact on addressing the health care needs, as established in the Commission's Report and Order.

In addition to potentially weak certifications raising issues of risk to future enforcement and prosecution, administration of this program raises an additional management risk. Traditionally, the FCC used administrators to run Commission programs, such as the USF and Telecommunications Relay Service (TRS) programs. The FCC decided to keep administration of the first round of COVID-19 Telehealth Program — including evaluating applications for support and reviewing and approving invoices for payment — at the Commission.

We see a management risk resulting from the high dollar value of the funding and the speed at which this new program needs to be implemented in response to the pandemic. We believe it is imperative that the Commission focus its efforts on closely monitoring internal controls and modifying the program, as needed, during the invoicing and reimbursement phases to address any potential fraud and other program deficiencies, and to ensure that risk is appropriately managed to protect the program against waste, fraud, and abuse.

The Office of Investigations followed the track of legislation which would implement an expansion of the COVID-19 Telehealth Program. This legislation appropriated an additional $249.95 million for the program, of which $50,000 was transferred to OIG for program oversight. Prior to the passage of that Act, OIG discussed shortcomings of Round 1 with Government Accountability Office (GAO) staff. Many of the issues OIG identified in the program were corrected in legislation, including publicizing metrics used to evaluate applications for funding and equitable distribution of funds. Additionally, WCB staff began to reach out to the Office of Investigation and worked with the Office of Investigations to implement earlier recommendations related to certifications in the application and invoicing forms. USAC staff, rather than FCC staff, will review program applications.

GAO published a March 2021 report which identified certain improper payments in the program, none of which had been previously identified to OIG. Office of Investigations questioned FCC management regarding these improper payments and were provided an explanation of their status. OMD staff promised OIG that if any red flags of fraud from Single Audit Act audits were observed, they would alert OIG.

Connected Care Pilot Program

On April 2, 2020, the Commission released a Report and Order establishing the Connected Care Pilot Program, making up to $100 million available over three years to eligible health care providers. With a focus on supporting services for low-income Americans and veterans, the Pilot Program will strive to improve health outcomes through connected care; reduce health care costs for patients, facilities and the health care system; and support the trend towards connected care across the United States. OIG has taken an active role in engaging with the Commission to identify potential risks in the implementation. Because this program involves a large dollar amount to be distributed to various projects throughout the country over the next three years, administration and oversight of this fund will pose significant management challenges.

Telecommunications Relay Service

The OIG understands that use of TRS-related services, particularly IP CTS, has increased in recent years, threatening to exceed the amount of funding available. Although the Office of Management and Budget (OMB) granted the FCC relief from TRS program improper payment testing procedures required by the Program Integrity Information Act (PIIA), it remains incumbent on management to ensure TRS program funds are properly disbursed on behalf of the intended program beneficiaries. This task may impose significant management challenges when confronting increasing program utilization and a potential funding shortfall.

In addition to increased use during the pandemic, OIG has received numerous complaints that educational institutions, healthcare providers, and business are taking advantage of TRS-supported services to cover services not envisioned by policymakers. For example, we have received complaints that deaf teachers working for educational institutions are using VRS to teach hearing students American Sign Language over Zoom and other video-conferencing platforms. Management should continue to monitor and adjust program rules if the pandemic has shifted marketplace dynamics and practices.

Finally, as the Commission and the Administrator continue to assess measures implemented to reduce fraud, waste, and abuse in the TRS program, management needs to hold providers accountable for failing to comply with program rules.

Bridging the Digital Divide

In March 2020, Congress enacted the Broadband DATA Act,[6] which gave the Commission 180 days to impose new rules to collect accurate and granular mapping data with the goal of updating and improving the accuracy of the broadband providers' broadband coverage maps used to evaluate nationwide broadband penetration. In April 2020, the Commission issued a Notice of Proposed Rulemaking and Order, setting certain rules and requirements for the 5G Fund for Rural America and seeking comment on what maps to use to identify geographic areas eligible for subsidies. In July 2020, the FCC adopted new rules for improved collection and mapping of broadband availability. The Order implemented key provisions of the Broadband DATA Act, including requiring fixed and mobile providers to submit standardized broadband availability maps and developing a common dataset of homes and businesses where fixed broadband networks could be deployed, over which service providers' broadband availability maps will be overlaid.

The rules also adopted filing and certification requirements, measures for determining the accuracy of broadband availability data (including audits and collecting crowdsourced data), standards for collecting and incorporating verified data for use in the coverage maps from governmental entities and certain third parties, and establishing the Broadband Serviceable Location Fabric. In January 2021, the Commission adopted additional rules fleshing out its implementation of the Broadband DATA Act, including a requirement that providers must submit a certification from a qualified engineer attesting to the accuracy of provider's data submission, and establishing a challenge process by which consumers and others can challenge the accuracy of coverage maps and other data. In July 2021, the Commission requested comments on outstanding aspects of implementing the Broadband DATA Act, including collecting verification information and technical requirements for challenges to mobile service and crowdsourced data.

In December 2020, the Commission announced the winners of the Rural Development Opportunity Fund's (RDOF's) Phase I auction, in which $9.23 billion of the Fund's total $20.4 billion will be distributed over ten years to bring high speed fixed broadband service to rural homes and small businesses that lack it. The areas targeted for 80 percent of the total RDOF investment were selected based on broadband mapping data noted for inaccuracies. In fact, at least 38 auction winners have notified the Commission that they will default on their obligations for at least 1,614 of the census blocks awarded to them in the auction, in most cases because the blocks were found to be already served by another provider or devoid of people. Additionally, while the Commission is in the process of setting rules, as required by the Broadband Data Act, the Commission must carefully

[6] Public Law No. 116-130, *Broadband Deployment Accuracy and Technological Availability Act or the Broadband DATA Act*, March 23, 2020.

consider the ramifications of deciding whether to proceed with the $9 billion 5G Fund for Rural America auction in 2021 using existing mapping data, or delaying that auction until 2023, when more granular broadband data, which would more accurately identify underserved areas, is available.

It is a significant management challenge to ensure that the maps reflect accurate broadband deployment and, concomitantly, that subsidies are disbursed to foster build-out in underserved areas to further bridge the digital divide and deploy 5G service.

Secure Networks Reimbursement Program (a/k/a "Rip and Replace")

In March 2020, the President signed into law the Secure and Trusted Communications Networks Act of 2019 (the Secure Networks Act), which among other things required the Commission to establish a program to reimburse providers of advanced communications services for the removal, replacement, and disposal of covered communications equipment and services from their networks. That law built upon previous actions by the Commission designating Huawei Technologies Company and ZTE Corporation as "covered companies," and rules prohibiting the use of Universal Service Fund support to purchase or obtain any equipment or services produced or provided by a covered company.

In December 2020, the Commission adopted the Supply Chain Second Report and Order, enacting rules that established the Secure Networks Reimbursement Program (SCNP), as required by the Secure Networks Act. A few weeks later, the President signed into law the Consolidated Appropriations Act of 2021 (CAA), amending the Secure Networks Act that, among other things, expanded the reimbursement program eligibility pool to include larger telecom companies. The CAA also appropriated $1.9 billion to fund the SCNP. In April 2021, the Commission selected Ernst & Young to administer the SCNP. In July 2021, the Commission adopted the Supply Chain Third Report and Order to conform the rules for the SCNP to be consistent with the changes made by the CAA, and to flesh out additional details for the program.

This new $1.9 billion program presents several management challenges. First, SCNP is a completely new program that does not build directly on an existing program (as compared to the way that the Emergency Broadband Program builds on Lifeline, or the Emergency Connectivity Fund builds on E-Rate). Additionally, the SCNP will be run over a short lifespan — the program will be completed within one year, although it does include provisions for participants to seek extensions of time based on circumstances. Collectively, these factors are a significant management challenge to ensuring that the $1.9 billion is spent appropriately to achieve the goal of replacing communications equipment and services that pose a threat to the nation's communications network and related supply chain.

Compliance with Payment Integrity Information Act of 2019 (formerly Improper Payments Elimination and Recovery Improvement Act)

The OIG's Payment Integrity Information Act (PIIA) audit report, issued on May 17, 2021, found the FCC was compliant in 8 of its 10 programs that were susceptible to significant improper payments. For the two non-compliant programs, the OIG's contracted auditors could not form an opinion on the FCC's overall compliance with PIIA because of a scope limitation encountered for the USF Lifeline program and unresolved prior year deficiencies for the USF High Cost program.

The auditors concluded they did not receive sufficient, appropriate evidence to support the Lifeline program's estimated improper payment rate and the related payment integrity information. The evidence received did not adequately address the concerns raised by the auditor nor did it provide adequate documentation to support the revised improper payment rate.

Additionally, the auditors were unable to rely on the improper payment rate that FCC management reported for the High-Cost program because deficiencies noted in FY 2018 and 2019 had not been addressed. Finally, the auditors noted that due to the COVID-19 pandemic, FCC did not complete USF recovery audits for two programs that met the PIIA recovery audit threshold. PIIA requires recovery audits for all programs that expended $1,000,000 or more annually.

To ensure compliance with PIIA, FCC management and its fund administrator must address deficiencies noted in the improper payment estimation methodology for both the High Cost and Lifeline programs. Ensuring that the Commission is compliant with the requirements of PIIA is considered a significant management challenge.

Compliance with the Digital Accountability and Transparency Act

In 2006, Congress passed the Federal Funding Accountability and Transparency Act (FFATA) of 2006,[7] which requires OMB to ensure the existence and operation of a free, publicly accessible website containing data on Federal awards (such as contracts, loans, and grants). In order to comply with FFATA reporting requirements, OMB launched the website USAspending.gov.

In May 2014, the Digital Accountability and Transparency Act (DATA Act) of 2014 was signed into law, amending and augmenting FFATA, to increase accountability, transparency, accessibility, quality, and standardization in Federal spending data. The DATA Act requires Federal agencies to report financial and payment information to the public through USAspending.gov in accordance with Government-wide financial data standards developed and issued by OMB and the Department of the Treasury.

During our FY 2017 and 2019 audits of FCC's compliance with the DATA Act, our contracted auditors reported that the FCC did not submit transaction-level component spending data for the USF and TRS fund,[8] as required by the Act. In FY 2021, the FCC submitted USF spending data for the first time, which was a marked improvement from previous years. The USF programs budget was $6.93 billion, representing 32 percent of the FCC's total budget received at the end of the third quarter in FY 2021.

As of September 2021, the DATA Act audit is still ongoing, but our auditors determined that the 2021 USF spending data submission did not comply with the DATA Act requirements because of significant deficiencies in the quality of the reported data. Specifically, the auditors noted that the USF spending data submission was incomplete and inaccurate due to incorrect action dates and

[7] Public Law No. 109-282, Federal Funding Accountability and Transparency Act of 2006, sections 1 to 4, September 26, 2006.

[8] The FCC's Office of General Counsel (OGC) issued a legal opinion on May 23, 2017, which concluded USF and TRS disbursements are likely Federal awards for purposes of Federal Funding Accountability and Transparency Act and should be reported, to the extent technically possible, to USAspending.gov.

missing data elements in USAC's information systems. In addition, our auditors identified processing errors, which included inaccurate reporting of optional data elements and untimely reporting of financial assistance spending data in the Financial Assistance Broker Submission. DATA Act reporting has been required for the past five years; however, the FCC remains unable to submit accurate and complete spending data for the TRS fund. The TRS Fund budget was approximately $1.70 billion, which was 8 percent of the FCC's total budget received at the end of the third quarter in FY 2021. Finally, we found the FCC's data quality plan implemented in 2021 was incomplete and outdated.

Until outstanding implementation issues surrounding FCC components area addressed, full compliance with the DATA Act will remain a significant management challenge.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Office